Rapid-American Corporation Annual Report -- 1978
America's Corporate Foundation; 1978; ProQuest Historical Annual Reports
pg. 0_1

rapid-american corporation • annual report 1978

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CONTENTS:

FINANCIAL HIGHLIGHTS

FOR THE YEAR

AT YEAR END

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TO OUR STOCKHOLDERS

It is my pleasure to report record earnings for the fiscal year ended on January 31, 1979. These earnings, exceeding every budgetary projection, were achieved through the untiring efforts of management and employees at every level and by almost every one of our divisions. These results include the highest earnings ever achieved by Lerner Stores, McCrory Stores, OTASCO and some of the industrial group, while Schenley achieved near record operating profit before the adoption of the last-in, first-out (LIFO) method of valuing inventories. It also marked the first time in many years that we had no losing divisions.

Cash flow, too, exceeded projections and allowed your company to decrease its bank borrowings, its long-term bank loans and credit requirements; all this in the face of escalating interest rates.

To continue our program of growth and to conserve cash in an inflationary economy, your Board of Directors approved the change in accounting for substantially all inventories to LIFO. This LIFO method will be continued in the future and will have a similar impact on future operations. The resultant savings in income taxes will increase cash flow, which will help your company finance its future growth, thereby continuing the improvement in net profits

For your convenience, we have highlighted salient features of this past year's operations.

As yet there is no clear indication as to the economic trend for the year 1979. Many well-known economists and prognosticators differ as to the effects of the various programs presently influencing the short term outlook. These include high interest rates, inflationary pressures countered by simultaneous government-oriented deflationary programs, an uncertain and troubled international political atmosphere, unwarranted increasing costs of energy and above all a continuing rise in the cost of living and a decreasing dollar value.

Yet, your management has projected higher operating earnings for the coming year with the hope that we shall be able to continue our momentum, undeterred by the clouds forming above our economy

Join me, then, in again congratulating our management and employees, our suppliers, our creditors, our family of bankers and all others who helped make 1978 a record year. We are going to strive to make 1979 even bigger.

Sincerely,

April 16, 1979

Chairman of the Board and President

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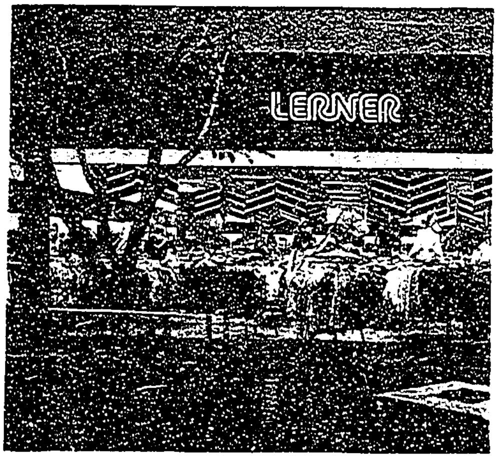
LERNER STORES

Karl L. Margolis
President and Chief Executive Officer
D. John Palladino
Vice Chairman and Chief Financial Officer
Arthur E. Strickman
Executive Vice President, Operations
Marc J. Reiss
Executive Vice President, General Merchandise Manager
Joseph K. Birmingham
Executive Vice President Real Estate
Herman D. Epstein
Senior Vice President, Merchandising
Nathan B. Epstein
Senior Vice President, Merchandising
Marvin Eichelbaum
Senior Vice President, Chicago Regional Office
Arnold Friedman
Senior Vice President, Atlanta Regional Office
Harold Greene
Senior Vice President, Denver Regional Office
Ralph L. Leventhal
Senior Vice President, Los Angeles Regional Office
Melvin J. Redmond
Senior Vice President, Jacksonville Regional Office
Morey Somach
Senior Vice President, Dallas Regional Office

Harold M. Lane, Sr.
Chairman Emeritus



Record 1978 sales and profits at Lerner Stores proved the wisdom of the aggressive expansion and modernization program in this fast-growing and highly profitable division. Profits increased a remarkable 36.1% over 1977 on a 12.7% increase in sales.

Never before in its 60-year history did Lerner open as many stores in one year as in 1978—a total of 74, of which 72 were in suburban shopping centers. These stores continue in the new Lerner mold—smaller in size and with selected high-turnover merchandise categories. Their contemporary design and fixturing are pointed toward today's fashion-conscious junior customer. The expansion of this thriving chain will go forward in 1979 with a target of 75 new stores to be added to the 565 stores in operation as of January 31, 1979. Opportunities for additional Lerner stores in new and existing shopping centers assure a continuation of aggressive, profitable expansion in future years.

The remodeling program designed to up-date older stores was accelerated in 1978, as an additional 112 stores were modernized and refixtured. The bulk of this program has now been completed, with a smaller number of stores scheduled for remodeling in 1979

The achievement of a significant increase in profit-to-sales percentage resulted from further improvement in gross margin and on-going expense control. Lerner's nationwide network of branch offices and distribution centers absorbed the large number of new stores and substantial additional volume with a minimal increase in overhead expenses, at the same time providing close and expert field supervision.

Lerner Stores, with its new contemporary image and long history of highly professional merchandising expertise, is uniquely positioned to take advantage of the fast-growing area of junior apparel retailing. There is good reason to be optimistic about a continuing and growing contribution from this division.

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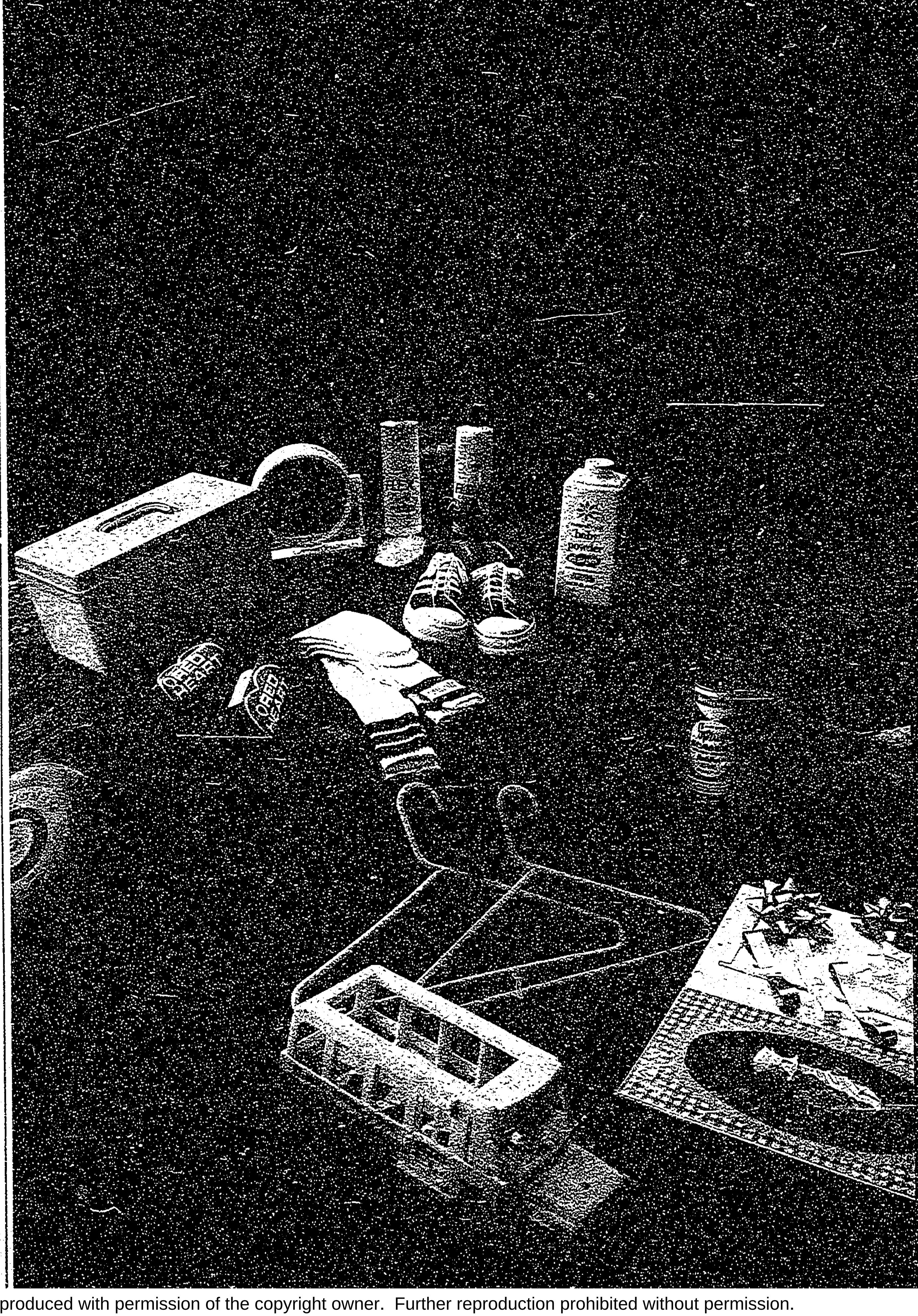

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McCRORY STORES

In 1978 McCrory Stores achieved the highest sales and earnings in its 96-year history. It now operates 743 stores under the trade names McCrory, McLellan, H. L. Green and J. J. Newberry.

This record year witnessed the opening of eight new stores, the total remodeling of 22 others and the modernization, refurbishment and remerchandising of an additional 72 stores. During 1978, 33 unprofitable stores were closed.

Among the new stores opened in 1978 were three new 12,000 square foot prototype stores, added to the pilot operation begun in 1977. These prototype stores are achieving their purpose. In 1979, 10 more such prototype stores are slated to be opened. We are continuing to monitor the two fast food service operations under the name of *"Capt. Mac's"*, started in 1977, and results to date justify the anticipated opening of 10 more such operations in 1979.

We are grateful for the dedication, loyalty and hard work of our employees in the stores, home office and distribution center. With their continued enthusiastic support and our aggressive sales promotion programs, McCrory Stores looks forward to celebrating its 97th birthday this year with even better results than those achieved in 1978.

Lorence A. Silverberg
Chairman and Chief Executive Officer
Ben Litwak
President and Chief Operating Officer
Charles Gass
Executive Vice President

Senior Vice Presidents

J. Philip Lux
General Merchandise Director
William R. Tallman
Operations and Field Merchandise Director

Vice Presidents

Anthony L. Clifford
Store Operations
Roger A. Elliott
Personnel
Harold R. Hughes
Administration
Irwin J. Hyman
Director of Real Estate and Construction
Paul McClellan
Movement of Goods
Bernard W. Morse
Analytics
Willard L. Morton
National Sales Manager
Donald Noll
Food Service
Kenneth Phillips
Informatics
George B. Stephens Jr.
Controller
Lazarus S. Yudin
Investment Control

William E. Davis
Assistant Vice President
Financial Planning

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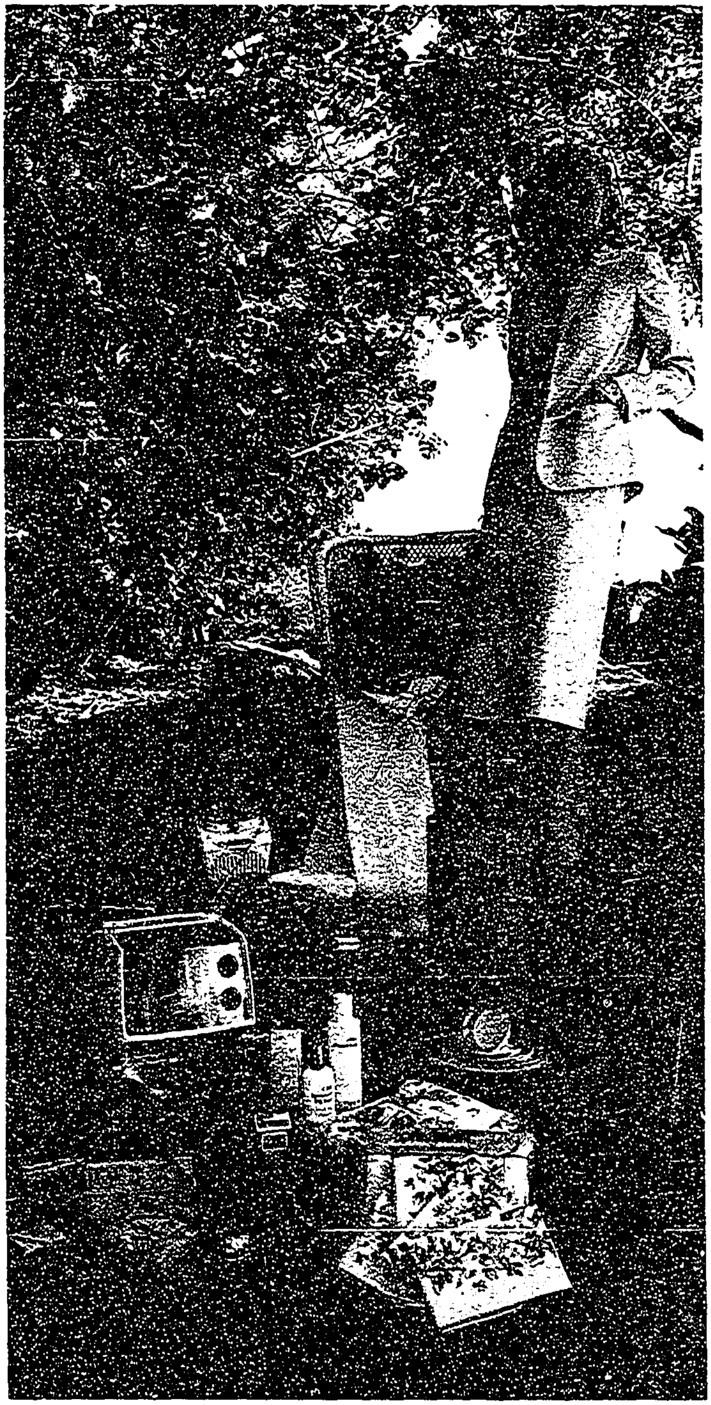


George W. Baylis
President

Steve Jackel
Executive Vice President

L.W.W. Horton
General Manager Britts Florida Division

Roscoe Kirby
General Merchandise Manager

Matt A. Crea
Controller

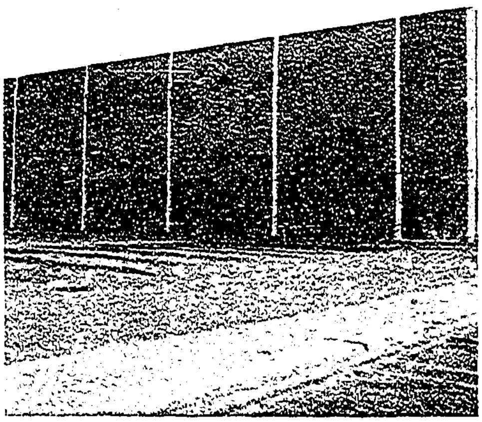
Edward J. Cairo
Personnel

BRITTS

Britts department stores sell moderately-priced brand name merchandise concentrating on family apparel and accessories with a full assortment of quality domestics, housewares, small appliances, giftware, china, glass, sporting goods, stereos and TVs. Our Florida stores also carry a full line of furniture.

Britts operates 21 department stores in 10 states. A new 100,000 square foot full-line Britts store opened in West Palm Beach, Florida in late November 1978. During 1978, Britts continued its ongoing program of pruning uneconomical stores by closing five stores located primarily in secondary markets. Two additional secondary market stores are scheduled for closing in 1979. In 1979, 25% of the stores containing 36% of the square footage will be located in primary markets in Florida.

We are pleased to report that stores in operation at year-end as a group increased their profitability in 1978 over 1977. Britts eagerly looks forward to 1979 when the full beneficial effect of the change-over from store-level control to highly centralized merchandising, sales promotion and informations systems should materialize.



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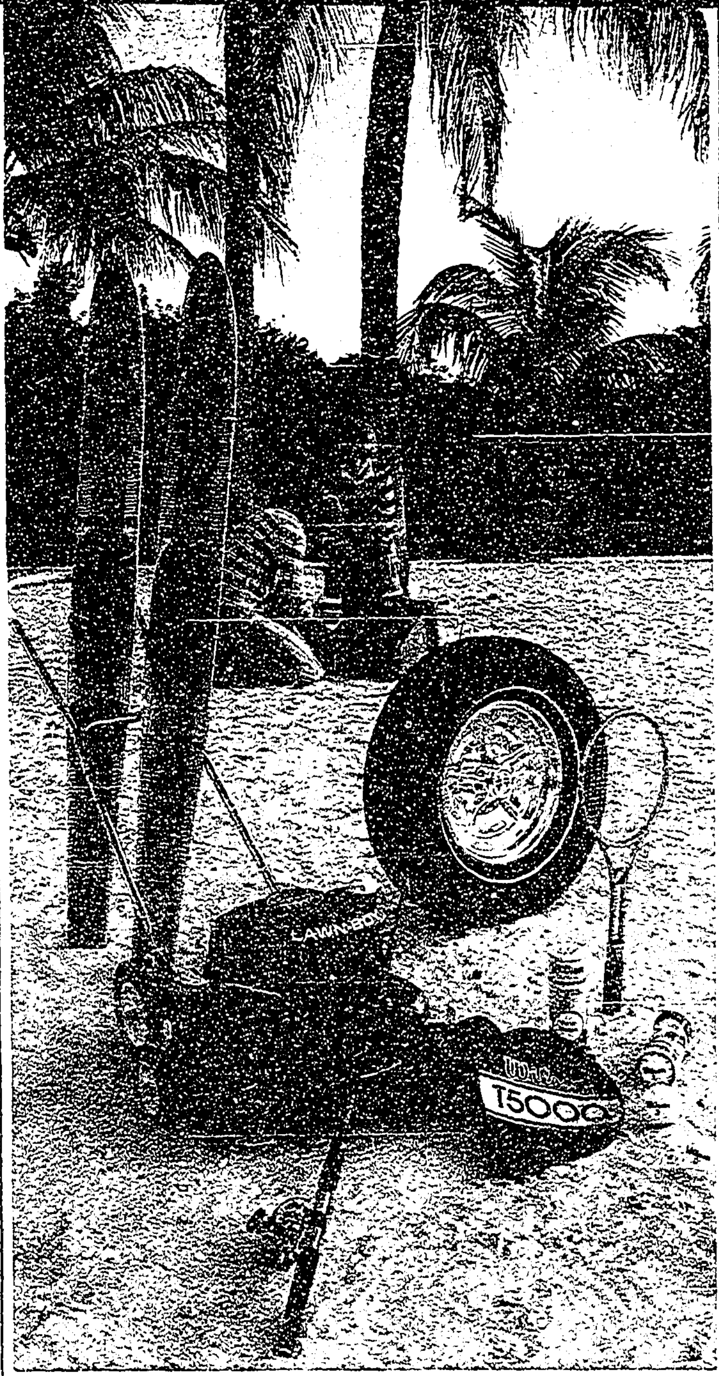


OTASCO

OTASCO celebrated its Diamond Jubilee Anniversary in 1978 by recording the largest sales and earnings in its history. These record results were accomplished by a thoroughly planned and executed marketing program, sales promotion events and public relations programs.

Gains were achieved in all departments of OTASCO's business The largest gains were shown in major appliances for the home, automotive parts, accessories and tires for the car and in lawn and garden supplies. There was continued strong growth in automotive service and parts installation.

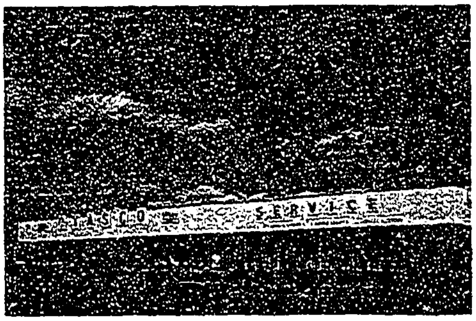
OTASCO's store expansion program was accelerated in 1978, with 12 new company-owned and 20 associate-dealer stores, increasing the total number of outlets to 664.

In a diversification move, OTASCO's newly created subsidiary, Rapid Muffler, Inc., opened three pilot shops in OTASCO's headquarters city—Tulsa, Oklahoma, devoted exclusively to the sale and installation of car exhaust systems and shock absorbers. If the test program proves successful, as anticipated, this new line of business will be expanded.

Plans for 1979 include a continuance of store expansion with 20 new company-owned stores and 25 associate-dealer stores projected. These stores will be located throughout OTASCO's thirteen southern states.

With the completion of the installation of an enlarged computer operation, attention will be directed to electronic point-of-sale installations.

Beginning each year, a marketing theme is adopted as our inspiration for the entire year. For 1979,the personnel of OTASCO enthusiastically dedicates itself to the slogan: "The Key is Productivity."



Edgar R. Sanditen
Chairman of the Board
Abe Brand
Vice Chairman of the Board
Ely G. Sanditen
Chairman of the Executive Committee
A. Arnold McNatt
President
Jerry L. Goodman
Vice President and General Counsel

Vice Presidents
Paul Marks—Real Estate
Donald Mann—Store Operations
Robert E. Shireman—Wholesale Division
J.R. Behl—Distribution

Helen Mason—Secretary
Calvin Gilbert—Treasurer

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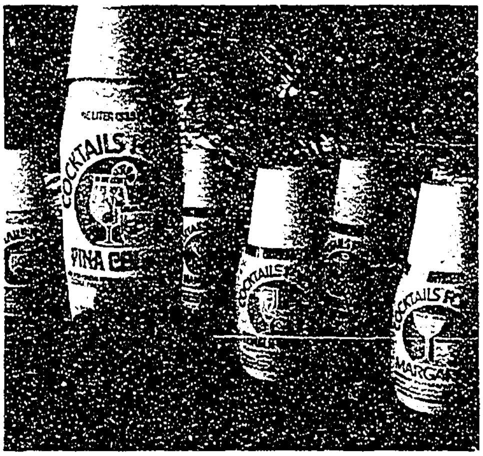
SCHENLEY INDUSTRIES

Isidore A. Becker—Chairman of the Board
Howard S. Feldman—President
David A. Chernow—Senior Executive Vice President
Adolph Slone—Executive Vice President
Joseph A. Morelli—Vice President
Bruce E. Meacham—Vice President/Finance

The major brand names of Schenley

STRAIGHT BOURBONS
Ancient Age, Ancient Ancient Age, J. W. Dant, I. W. Harper, Old Charter
AMERICAN WHISKEY.
Schenley Reserve
SCOTCH WHISKIES
Dewar's "White Label," Dewar's "12-Year-Old" Ancestor, Dewar's Malt 12-Year-Old, J. W. Dant, Peter Dawson
IRISH WHISKEY:
Power's Gold Label
CANADIAN WHISKIES
J. W. Dant, Grande Canadian, MacNaughton. O F C
TENNESSEE WHISKEY
George Dickel
BRANDIES
Coronet VSQ, Asbach (Germany), *Cambas* (Greece), *Pedro Domecq* (Spain, Mexico), *Grand Trianon* (France), *Stock '84* (Italy)
GINS
Schenley Extra Dry, Plymouth (England)
VODKAS.
Samovar, Schenley, Wyborowa and *Polonaise* (Poland)
RUMS:
Carioca, Cruzan (Virgin Islands)
TEQUILA
Olé and *San Matias* (Mexico)
PREPARED COCKTAILS
Cocktails for Two
LIQUEURS AND CORDIALS
J W Dant, DuBouchett, Schenley, Cambas (Greece), *Cuarenta y Tres* (Spain), *Glayva* (Scotland), *Stock* and *Strega* (Italy), *Ambrosia* (Canada)
APERITIFS AND VERMOUTHS
Dubonnet Red and Blonde *Lillet* (France),
Stock Dry and Sweet Vermouth (Italy)
WINES
France *Canard Duchene, Krug* (Champagne), *Chateau Beychevelle, Maison Bichot, Chateau Latour, Schroeder & Schyler, LaCour Pavillon, Chateau Petrus, Pierre Jean* (Bordeaux); *F E. Hugel et Fils* (Alsace), *Bichot, Maison Joseph Drouhin, Maison J. Faiveley, Domaine Comte Georges de Vogue* (Burgundy), *Ackerman Laurance* (Loire Valley); *Delas Freres* (Rhone)
Germany: *Guntrum*
Greece: *Cambas*
Italy: *Bigi, Calissano, Fontanafredda, Fratelli Lambrusco, Lamberti, Melini, Negri, Santi, Vaja, Villa D'Oro, Verrazzano*
Portugal. *Mateus Rosé, Mateus* White, *Aveleda, Grão Vasco,*
Spain *Cruz Garcia Réal Sangria, Pedro Domecq* sherries, *Siglo, Domecq Domain*
Switzerland *Dezaley L'Arbalete*



Once again in 1978, the American consumer demonstrated an ever widening range of tastes and desire for experimentation. Categories which a decade ago barely changed from year to year, spurted ahead with sizable gains, notably Pre-mixed Cocktails, Imported Cordials and Imported Brandies.

In each of these categories Schenley entries not only matched, but outstripped, industry levels.

Schenley, with its wide range of products from all over the world and its recognized marketing skills, is uniquely equipped to take advantage of this expanding horizon of consumer preference.

At the same time, the year was marked by a firming up in the important categories of Scotch and Bourbon.

Dewar's "White Label" Scotch continued as the Company's single best selling brand, enjoying a commanding lead as the second largest selling Scotch of all. And once again—a crucial indicator—it broadened the national base of its sales, in some markets advancing as much as 20 per cent.

Schenley's Bourbons participated in what increasingly appears to be a resurgence in this category. *I.W. Harper* in the premium, *Charter 10* in the super premium and *Ancient Age* in the moderate price segments all showed gains. *George Dickel* Tennessee Whisky, another premium item, extended its 13-year success story, shipping every case produced.

The Company's pre-mixed cocktail sales were up 52 per cent. This was based on the continued climb of the *Cocktails for Two* line, which has quickly established itself as a major national brand.

Plans were announced for a *Cocktails for Two* Bloody Mary This could be the most popular type of all, for research shows that the Bloody Mary is the most widely enjoyed mixed drink in the country.

Paced by *Stock* Cordials, which grew a remarkable 43 per cent, all of Schenley's Imported Cordials and specialties moved ahead last year.

The Company's Imported Brandy sales also increased in 1978. Among these brandies are *Stock*, the world's largest selling brandy; *Pedro Domecq* Brandies from both Mexico and Spain and, Germany's *Asbach Uralt.*

United States sales of wines imported by Schenley now aggregate nearly three million cases a year. On the published lists of leading wine importers, Schenley is the only Company with four table wines that sell over 100,000 cases a year. They are *Mateus Rosé* from Portugal, *Cruz Garcia Real Sangria* from Spain, *White Mateus* from Portugal and *Fratelli Lambrusco* from Italy.

Dubonnet, the unique proprietary aperitif, continued to build its remarkably consistent and vital franchise.

DuBouchett Cordials and *MacNaughton* Canadian Whisky were among other strong Schenley contenders that strengthened their market position in 1978.

To expand its position in the growing and extremely profitable super premium Scotch whisky category, the Company initiated two moves. It is introducing a 12-year-old Scotch named *Ne Plus Ultra.* And it has taken *Ancestor* 12-year-old Scotch whisky and structured the marketing approach so that the brand will now be known as *"Dewar's 12"*, to take advantage of the fame of *Dewar's "White Label"*.

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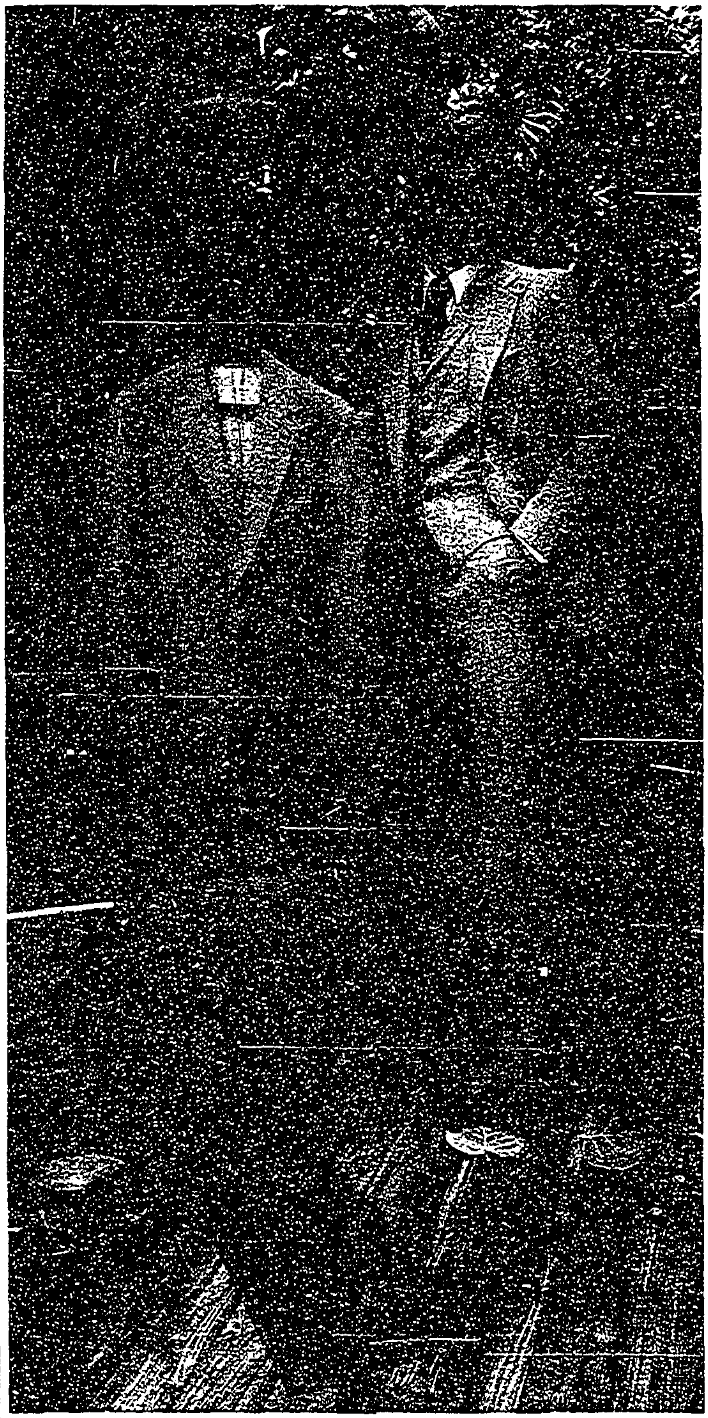


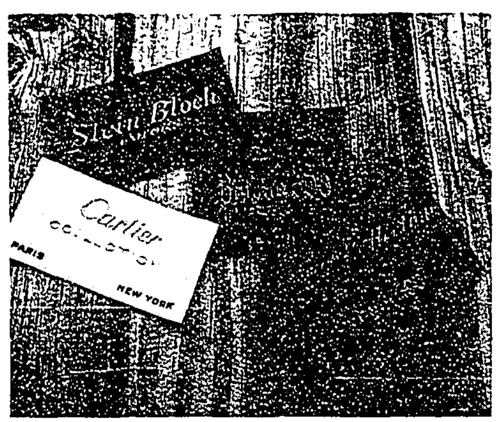
BOTANY '500'

In 1978, Botany '500' substantially outperformed its banner year of 1977, and expanded and solidified its marketing position by achieving distribution to almost 2,000 retail accounts, including the finest department and specialty stores in the country. It also expanded its national advertising campaigns through magazines, newspapers, television and radio in all major markets, so that the *"Botany '500'"* label is now one of the best known and leading labels in the tailored clothing industry. Its suits and sportcoats are recognized as America's greatest value.

As the success and fame of the *"Botany '500'"* label have grown so has its program for licensing this great brand name. Numerous companies, sharing Botany '500's commitment to quality and value, have eagerly licensed the *"Botany '500'"* label to share in its success. Botany '500' is combing the world for additional licensees that market quality products.

Botany '500' has placed strong emphasis on the *"Cartier"* Collection, geared to the young male adult, with the result that the *"Cartier"* Collection has emerged as the fastest growing line in Botany '500'

Botany '500's innovative price stabilization policy, which substantially assures its customers stabilized costs over an 18 month period, made a definite imprint on the minds of the retailers and consumers who realize the value that Botany is offering. The program will continue through the Fall of 1979.



Maurice A. Halperin
President

Al Roth
Senior Executive Vice President Sales/Marketing

Lawrence Glazer
Senior Executive Vice President, Manufacturing

Bruce Geller
Executive Vice President, Merchandising/Styling

Daniel Molter
Executive Vice President, Finance

Howard W. Haftel
Vice President, Licensing

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CROSS COUNTRY CLOTHES

In 1978, the Cross Country Clothes division registered an appreciable increase in operating earnings over the prior year. A number of management techniques were initiated in 1978 to provide improved "asset management" and "bottom line results." Emphasis throughout the year was placed on equalling or doing better than budget. The increase in earnings was augmented by the extra care Cross Country took in the type of business booked during the year.

Cross Country Clothes remained a very important resource to major chains in 1978. However, the largest area of growth has been in the *"Coat Tails"* line. This line, introduced only last year, has become the fashion leader in the popular priced clothing market; particularly for the young man conscious of both value and style. Priced to retail at $110 to $150, with modeling ideas and piece goods selections comparable to those retailing at much higher prices, *"Coat Tails"* is being carried by over 600 leading retailers located throughout the country, including fine specialty stores, department stores, and menswear chains.

Cross Country continues to be a leader in the marketplace because of its outstanding reputation for quality, value and fashion.

Franklin A. Billera
President

Vice Presidents

Harold Haas
Marketing/Sales

Frank Graham
Finance

Wassyl Liskanich
Manufacturing

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David I. Klein
President

Aaron Jaffe
Executive Vice President

Robert J. Levin
Vice President

John Riley
Controller

GILEAD

Gilead finished fiscal 1978 with the highest sales and earnings in its history. In the highly competitive market in which we operate, Gilead ascribes its success to balancing the demands of high fashion and popular prices.

We serve our customers creative styling and fashionable fabrics, fully aware of price competition but never sacrificing quality to meet price.

Gilead continues to expand its traditional product line of undergarments, sleepwear, lingerie and robes under the well known *"Gilead"* label with increased emphasis on shift dresses and loungewear.

We employ some 1,000 people in six sewing plants in North Carolina and Georgia, and with our 32 representatives we service more than 5,000 leading department and specialty stores, including the most prestigious retailers in the country.

We look forward to 1979 with renewed confidence in our product lines and with high hopes for additional gains.

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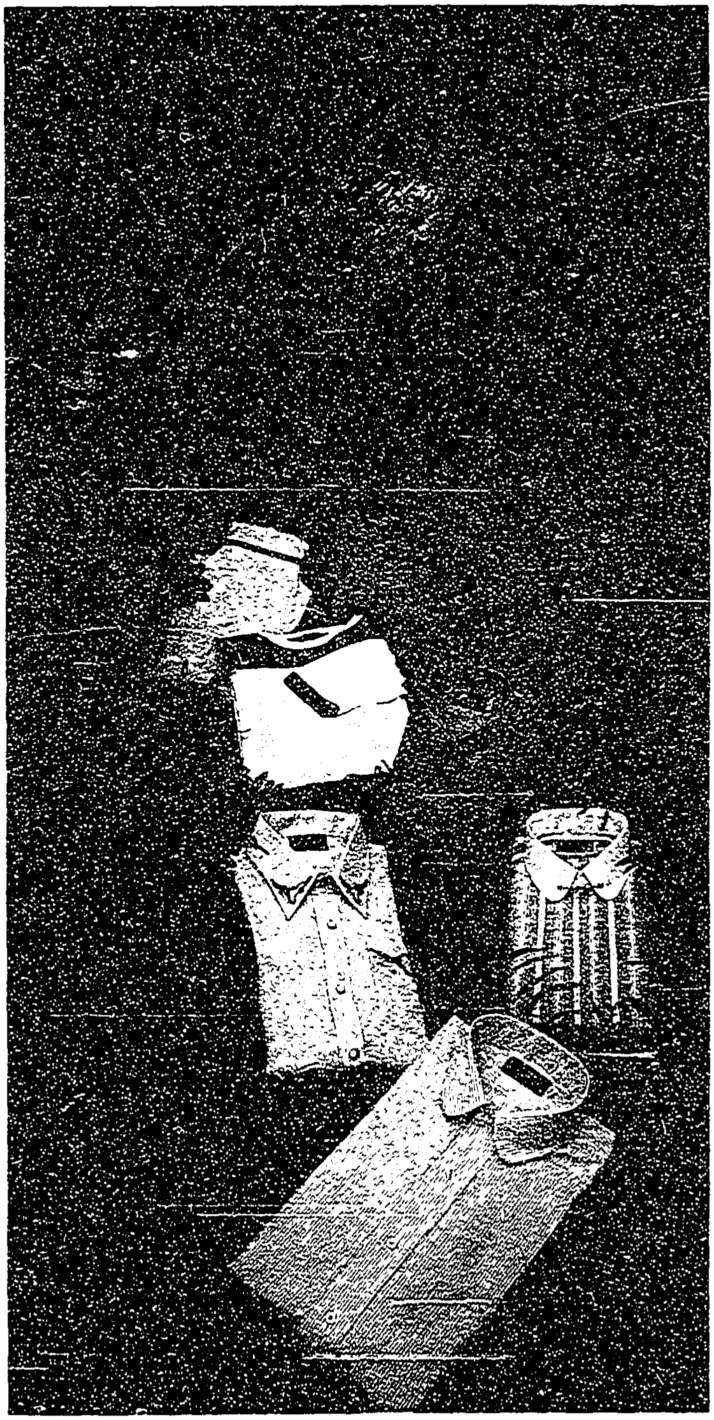


BOTANY SHIRT

Fiscal 1978, the third operating year of Botany Shirt, was a banner year marked by substantial earnings and expansion.

Our Knitwear Division, a major producer of Knit-T's and specialty shirts sold to screenprinters for the retail trade and advertising promotions, expanded its operations to include a line of products in the active sportswear field for men and women, using our own manufactured cloth.

The Shirt Division acquired the Bert Pulitzer Company, widely known for its high priced designer label, and is actively engaged in marketing the *"Bert Pulitzer"* line of men's shirts, a *"Pulitz-Her"* line of ladies' blouses and *"Survivalon"* outerwear jackets. The Shirt Division has also added a new line of boys' shirts sold to chain stores and continues its successful marketing of high quality single needle dress shirts sold to "upstairs" department stores under the *"Botany '500'"* label.

Thus in this third year of operations, Botany Shirt has emerged as a full-line manufacturer ranging from simple T-Shirts to designer label dress and sport shirts.

Daniel J. Manella
President

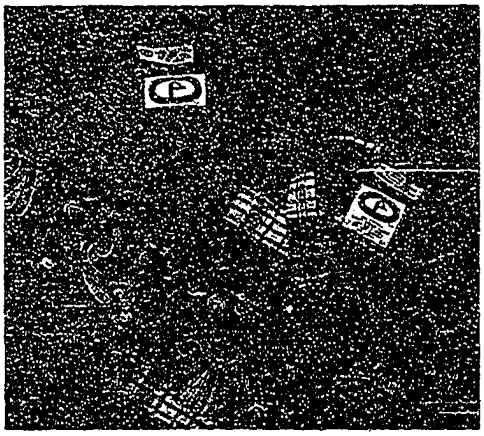
Vice Presidents

Bernard Geller
Administration

Ross Castagna
Screenprint Division

Bert Pulitzer
Pulitzer Division

Robert Stranyak
Controller



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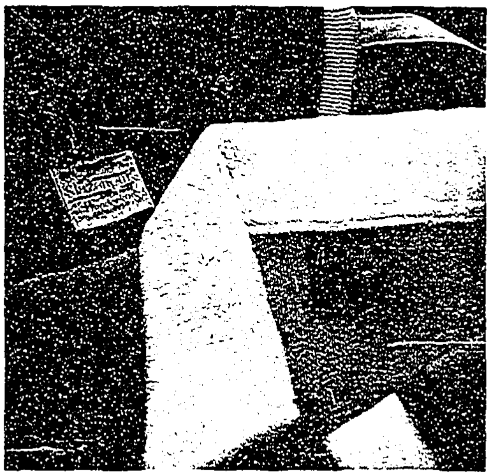
WONDERKNIT

Wonderknit again achieved outstanding results in 1978. The time honored *"Wonderknit"* label on knitted casual sport shirts and sweaters for boys continues to increase its popularity in leading department and specialty stores throughout the country. In 1978, Wonderknit added approximately 900 additional accounts to its nationwide distribution. Wonderknit is currently developing and marketing for the contemporary woman, under the *"New Era by Wonderknit"* label, an imaginative line of knit tops, woven blouses and sweaters; and for young men, under the *"Ramrod by Wonderknit"* label, an exciting line of knit shirts, velour shirts, a variety of leisure jackets, woven basic and western shirts and sweaters. Wonderknit continues to carry its *"Slazenger by Wonderknit"* label in active sportswear.

Reuben M. Galston
President

Vice Presidents
Charles Cramer
Sales
Benjamin Shamper
Merchandising
Anthony Patti
Manufacturing
Jerome Linden
Western Division
Nathaniel Schaffer
Womens Division

Daniel Mancini
Controller



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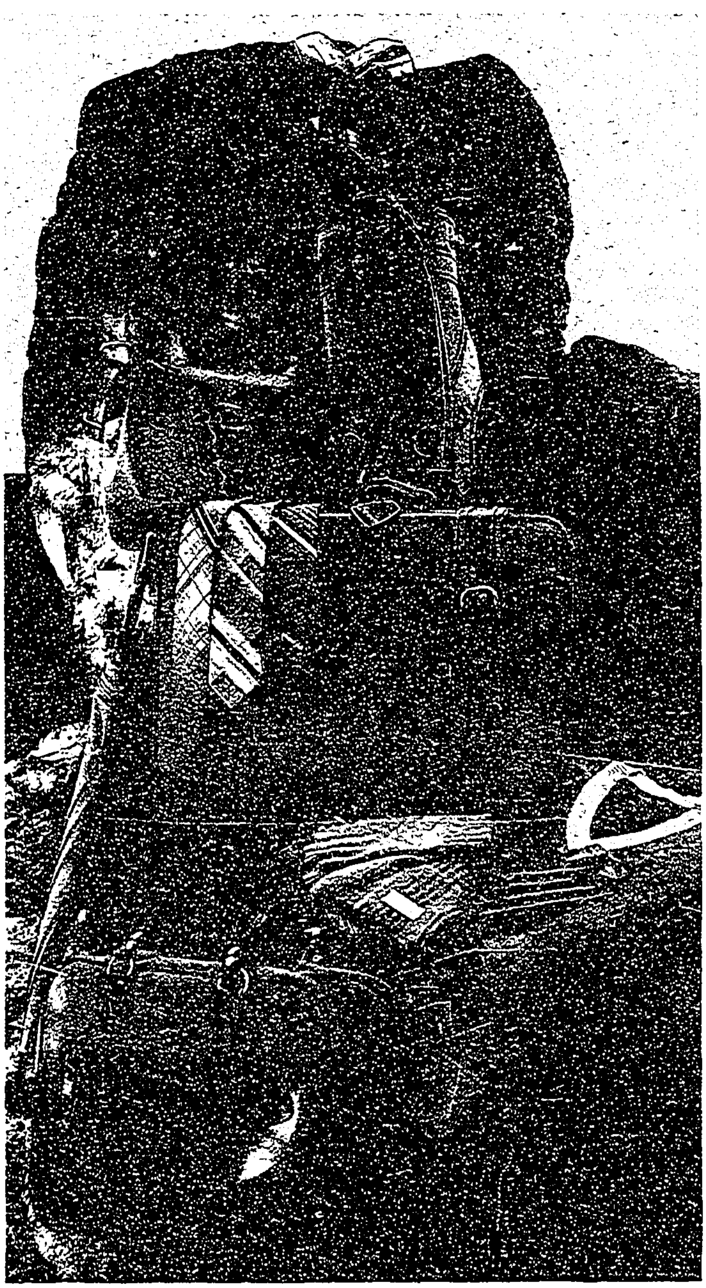

Ned H. Brower
President

Robert A. Brower
Executive Vice President

Irvin Rubin
Vice President, Charge of NY Office

Vice Presidents

Bernard Friedman
Sales

William D. Halker
Sales

Fred Urban
Sales

Nancy B. Roehm
Controller

LEEDS TRAVELWEAR

In fiscal 1978, Leeds returned to profitability for the first time in years. This turnaround was achieved in part by maintaining a tight control over expenses and implementing a successful import program.

Leeds continues to be a significant supplier of domestically manufactured soft-sided luggage, golf and bowling bags and imported luggage to major department stores, the military exchange systems, the catalog showroom industry, national retail chains and sporting goods distributors. Sporting goods and luggage products are manufactured for private labels as well as under the *"Leeds"* trademark.

A solid operating base has been built from which additional profitable growth is anticipated.

William D. King
President

Robert H. Wood
Vice President of Manufacturing

Dennis M. Hayes
Vice President of Sales

Frank F. Hindman
Treasurer

Gerald A. Sylvester
Manager of Production

BEAU BRUMMELL

Beau Brummell is nationally known for its creativity in fabric, design and fashion leadership. Its neckwear is carried by over 5,000 of the finest retailers throughout the country under such outstanding labels as *"Beau Brummell"* (Contemporary Fashions); *"Jacques Fath"* and *"Nedo"* (Couturier); *"Saddle Club"* (Traditional); and *"Beau Brummell"* Fashionaire (pre-tied four-in-hand).

Beau Brummell also widely markets a comprehensive line of men's accessories including Men's *"Isotoner Gloves"* and *"Knit Gloves* by *Aris"*; *"Beau Brummell"* and *"Saddle Club"* Mufflers and Pocket Handkerchiefs; *"Take 5 Luggage"* and *"Sweaters,* by *Saddle Club"*; and *"Beau Brella"* (Umbrellas).

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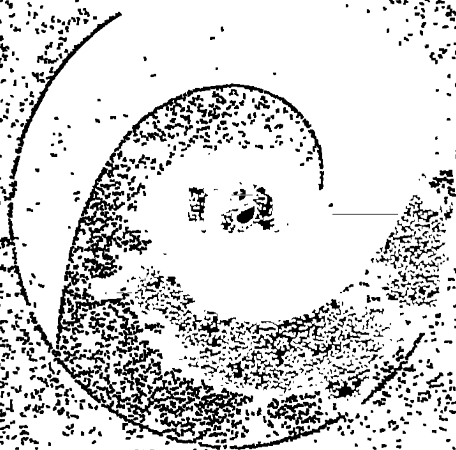

OPERATIONS REVIEW

Income from continuing operations in 1978 was $37.2 million or $3.92 per share fully diluted compared with $25.1 million or $2.65 per share fully diluted for 1977.

The following table shows the effect of the adoption during 1978 of the LIFO method of inventory valuation which reduced earnings:

	Reduction of Operating Profit (before taxes)	*Reduction of Income From Continuing Operations (after taxes)*
	(In Millions)	
Schenley	$21.7	$10.7
OTASCO	2.0	1.0
McCrory Stores	1.7	.9
	$25.4	$12.6
Applicable Reduction of Per Share Amounts:		
Primary		$1.44
Fully Diluted		$1.15

The contribution of each of the major business segments to consolidated net sales and operating profit (loss) from continuing operations for fiscal 1978 and the prior four years are shown on the opposite page. The 1977 and prior fiscal years have been restated to reflect the accounting for certain leases as capital leases.

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CONTINUING OPERATIONS

NET SALES						OPERATING PROFIT (LOSS)				
1974	1975	1976	1977	**1978**		**1978**	1977	1976	1975	1974
(In Millions)						(In Millions)				
					Retail Merchandising					
$ 506	$ 567	$ 582	$ 617	**$ 695**	Lerner Stores	**$101.0**	$ 74.2	$ 53.4	$ 59.9	$ 47.2
502	509	495	520	**544**	McCrory Stores	**34.9**[a]	27.9	22.3	8.4[b]	3.8
152	170	184	197	**220**	OTASCO	**18.4**[a]	17.4	15.3	15.7	15.9
122	98	104	91	**84**	Britts and other	**3.2**	(1.6)	(1.1)	(1.2)[b]	3.1
					Alcoholic Beverages					
760	783	821	772	**730**	Schenley	**37.7**[a]	53.5	57.2	51.8	60.2
					Industrial Group					
67	63	72	88	**86**	Menswear	**4.9**	2.8	1.0	(.8)	1.5
47	37	39	42	**45**	Apparel and luggage	**2.2**	(.8)	(.6)	(2.0)	(3.6)
61	50	49	46	**50**	Knitwear	**5.1**	5.1	3.5	(7.9)	(4.6)
42	5	—	—	**—**	*Other Operations*	**—**	—	—	(1.0)	(14.0)[c]
$2,259	$2,282	$2,346	$2,373	**$2,454**		**207.4**	178.5	151.0	122.9	109.5

	1978	1977	1976	1975	1974
Unallocated Costs					
Interest and debt expense	**111.3**	103.9	103.8	128.1	152.4
General corporate expenses	**19.9**	19.4	19.9	23.6	23.4
Other income earned at the corporate level	**(3.0)**	(2.1)	(9.6)	(3.2)	(3.3)
Equity in loss of unconsolidated subsidiaries, etc.	**.8**	.3	(1.4)	4.7	(.3)
	129.0	121.5	112.7	153.2	172.2
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**$ 78.4**	$ 57.0	$ 38.3	$(30.3)	$(62.7)

(a) After LIFO, see page 16.
(b) After aggregate provision for closed stores of $13.4 million.
(c) After provision for disposition of certain operations of $10.4 million.

Additional information concerning Rapid's business segments is presented in Note 21 to Financial Statements.

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Consolidated Balance Sheets

ASSETS

	January 31, 1979	January 31, 1978*
	(In Thousands)	
Current Assets:		
Cash (Note 5)	$ 36,639	$ 57,452
Temporary investments, at cost which approximates market	49,575	19,000
Trade receivables, less allowances ($4,965,000 and $5,421,000) (Note 2)	203,375	215,821
Inventories (Notes 1 and 3)	616,215	600,864
Other receivables, prepaid expenses, etc.	38,747	32,168
Total current assets	944,551	925,305
Investments and Advances (Notes 1 and 2):		
Otasco Credit Corporation, at equity	15,304	15,156
Other investments, etc., substantially at equity	16,770	15,432
Total investments and advances	32,074	30,588
Property, Plant and Equipment (Note 1):		
Land	8,014	8,111
Buildings, store properties and warehouses	97,129	91,639
Furniture, fixtures and leasehold improvements	229,766	227,768
Machinery and equipment	79,757	77,335
Total—at cost	414,666	404,853
Less accumulated depreciation and amortization	218,661	218,598
	196,005	186,255
Capital leases, less accumulated amortization (Note 13)	74,126	80,302
Property, plant and equipment—net	270,131	266,557
Other Assets:		
Excess of cost of investments over related equities, less accumulated amortization ($23,130,000 and $19,164,000) (Notes 1 and 4)	253,058	250,955
Franchises, less accumulated amortization ($2,517,000 and $2,119,000) (Notes 1 and 4)	47,483	47,881
Trademarks	3,031	3,401
Deferred charges, mortgages and sundry	33,771	36,972
Total other assets	337,343	339,209
Total	$1,584,099	$1,561,659

* Restated (Note 13)

See Notes to Financial Statements.

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LIABILITIES AND STOCKHOLDERS' EQUITY

	January 31, 1979	January 31, 1978*
	(In Thousands)	
Current Liabilities:		
Short-term debt (Note 5)	$ —	$ 110,000
Current maturities of long-term debt (Note 5)	21,412	18,586
Accounts payable	109,310	99,986
Accrued expenses and sundry (Note 17)	137,287	135,011
Capital lease obligations (Note 13)	10,756	10,000
Accrued Federal and foreign income taxes (Note 9)	47,199	39,091
Total current liabilities	325,964	412,674
Long-Term Debt, Less Current Maturities and Unamortized Discount (Note 5)	812,041	731,644
Other Non-Current Liabilities:		
Capital lease obligations (Note 13)	97,332	106,506
Deferred income taxes (Note 9)	53,127	35,398
Reserves for store closings (Note 8)	26,656	33,407
Other	30,611	31,946
Total other non-current liabilities	207,726	207,257
Minority Interest in Subsidiaries (Note 1)	15,961	15,941
Commitments and Contingent Liabilities (Notes 13 and 14)		
Stockholders' Equity (Notes 5, 6, 7 and 13):		
Capital stock:		
Preferred stocks (aggregate liquidation preference, $21,075,000 and $24,003,000)	6,088	6,828
Common stock, $1 par value, authorized 50,000,000 shares, issued 7,155,094 shares and 7,935,816 shares, less treasury stock 81,081 shares and 81,581 shares	7,074	7,854
Additional paid-in capital	174,035	184,135
Retained earnings (deficit)	35,210	(4,674)
Total stockholders' equity	222,407	194,143
Total	$1,584,099	$1,561,659

* Restated (Note 13)

See Notes to Financial Statements.

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Statements of Consolidated Income

	Year Ended January 31,		
	1979*	1978**	1977**
	(In Thousands, Except Per Share Amounts)		
Revenues:			
Net sales (Note 1)	$2,454,024	$2,372,954	$2,346,125
Other—net (Note 15)	7,878	4,306	14,572
	2,461,902	2,377,260	2,360,697
Costs and Expenses:			
Cost of goods sold (Note 1)	1,756,850	1,707,498	1,712,258
Selling, general and administrative expenses	486,773	480,576	479,259
Interest and debt expense (Note 15)	111,267	103,929	103,807
Depreciation and amortization (Note 1)	28,585	28,251	27,078
	2,383,475	2,320,254	2,322,402
Income From Continuing Operations Before Provision for Income Taxes	78,427	57,006	38,295
Provision for Income Taxes (Note 9)	41,185	31,888	24,355
Income From Continuing Operations Before Extraordinary Credits	**37,242**	**25,118**	**13,940**
Discontinued Operations—Provision for estimated losses on phase-out of S. Klein—net of tax (Note 8)	—	(7,500)	—
Income Before Extraordinary Credits	37,242	17,618	13,940
Extraordinary Credits:			
Gains on debenture exchanges—net of tax (Note 11)	2,347	30,075	—
Utilization of loss carryforwards and tax credits (Note 9)	4,844	—	—
Net Income	44,433	47,693	13,940
Consolidated Preferred Dividend Requirements (Note 12)	1,809	1,928	2,023
Net Income Applicable to Common Stockholders	$ 42,624	$ 45,765	$ 11,917
Income Per Share of Common Stock (Note 12):			
Primary:			
Continuing operations	**$4.52**	**$2.95**	**$1.54**
Discontinued operations	—	(.95)	—
Extraordinary credits	.82	3.83	—
Net income	$5.34	$5.83	$1.54
Fully Diluted:			
Continuing operations	**$3.92**	**$2.65**	**$1.43**
Discontinued operations	—	(.82)	—
Extraordinary credits	.66	3.28	—
Net income	$4.58	$5.11	$1.43

* After LIFO (Note 1).
** Restated (Note 13).

See Notes to Financial Statements.

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Statements of Consolidated Stockholders' Equity

	Preferred Stocks (Note 6)	Common Stock (Note 7)	Additional Paid-in Capital	Retained Earnings (Deficit)*	Treasury Securities**
			(In Thousands)		
Balance, February 1, 1976	$6,847	$6,904	$187,761	$(20,792)	$(51,819)
Net income				13,940	
Cash dividends on preferred stocks			(942)		
Conversion of preferred stocks	(16)	1	15		
Common stock issued pursuant to merger of a wholly-owned subsidiary with McCrory (Note 1)		948	5,805		
Cancellation of treasury shares of McCrory at date of merger			(6,212)	(44,991)	51,203
Equity in certain transactions of subsidiaries			(642)		33
Reclassification			(593)	10	583
Balance, January 31, 1977	6,831	7,853	185,192	(51,833)	—
Net income				47,693	
Cash dividends on preferred stocks			(706)	(235)	
Conversion of preferred stocks	(3)		3		
Equity in certain transactions of subsidiaries		1	(354)	(299)	
Balance, January 31, 1978	6,828	7,854	184,135	(4,674)	
Net income				44,433	
Cash dividends on:					
Preferred stocks				(889)	
Common stock ($.40 per share)				(2,986)	
Conversion of preferred stocks	(740)	160	580		
Common stock acquired in exchange for debentures and warrants		(931)	(11,399)		
Common stock purchased in odd-lot tender		(10)	(71)		
Warrants to be issued in settlement of litigation			750		
Equity in certain transactions of subsidiaries		1	40	(674)	
Balance, January 31, 1979	$6,088	$7,074	$174,035	$ 35,210	

* Restated (Note 13).

** Consisted of equity in McCrory's cost of its treasury stock and McCrory's carrying value of investment in Rapid's common stock (less par value) and warrants.

See Notes to Financial Statements.

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Statements of Changes in Consolidated Financial Position

	1979	1978*	1977*
		(In Thousands)	
Funds Provided:			
Operations:			
Income before extraordinary credits	$ 37,242	$ 17,618	$ 13,940
Items not currently requiring funds:			
Depreciation and amortization (including debt discount and intangibles)	38,295	40,128	39,202
Deferred income taxes	10,022	12,450	13,815
Provision for S. Klein phase-out	—	14,500	—
Other—net	9,324	8,303	2,247
Funds provided by operations	94,883	92,999	69,204
Extraordinary credits: (see schedule below)	—	—	—
Utilization of loss carryforwards and tax credits	4,844	—	—
Increases in long-term debt	186,532	—	4,102
Disposals of property, plant and equipment	4,933	7,821	5,314
Reduction in excess cost related to acquisition of McCrory minority interest	9	1,758	8,251
Decrease in investment in McCrory Credit Corporation	—	—	20,300
Issuance of securities in McCrory merger	—	—	6,753
	291,201	102,578	113,924
Funds Applied:			
Decreases in long-term debt	107,285	47,528	33,754
Additions to property, plant and equipment	37,583	27,039	25,621
Acquisition of common stock	12,411	—	—
Reduction of capital lease obligations	9,174	6,050	7.177
Reduction of non-current reserves relating to store closing programs	9,480	8,652	11,605
Additional consideration for acquisition of subsidiaries	6,090	3,218	12,037
Cash dividends	3,875	941	942
Investment in Otasco Credit Corporation	—	—	15,000
Other—net	(653)	7,153	2,242
	185,245	100,581	108,378
Increase in Working Capital	$105,956	$ 1,997	$ 5,546
Increase (Decrease) in Working Capital by Components:			
Cash	$(20,813)	$(21,618)	$ (388)
Temporary investments	30,575	19,000	—
Trade receivables, less allowances	(12,446)	19,690	45,147
Inventories	15,351	(5,906)	(1,604)
Other receivables, prepaid expenses, etc.	6,579	2,923	(15,503)
Short-term debt	110,000	4,412	(28,589)
Current maturities of long-term debt	(2,826)	(8,450)	13,321
Accounts payable	(9,324)	(4,780)	(9,323)
Accrued expenses and sundry	(2,276)	(885)	1,460
Capital lease obligations	(756)	579	(944)
Accrued Federal and foreign income taxes	(8,108)	(2,968)	1,969
Increase in Working Capital	$105,956	$ 1,997	$ 5,546

Extraordinary credits:

	1979	1978
Gains on debenture exchanges	$ 2,347	$30,075
Related deferred taxes	1,719	16,133
	4,066	46,208
Decrease in long-term debt	(4,066)	(46,208)

* Restated (Note 13).

See Notes to Financial Statements.

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Notes to Financial Statements

1. *Summary of Significant Accounting Policies*

Principles of Consolidation

The consolidated financial statements include (i) Rapid and its divisions, Leeds Travelwear and Rapid Electrotype; (ii) McCrory Corporation and its divisions and subsidiaries, including Lerner Stores Corporation and subsidiaries, Otasco, Inc. and subsidiaries, J. J. Newberry Co. and subsidiaries and all other subsidiaries, exclusive of Otasco Credit Corporation which is carried at equity; (iii) Schenley Industries, Inc. and its subsidiaries; (iv) Anvil Brand, Incorporated and its divisions and subsidiaries; (v) Rapid-American Menswear, Inc. and its divisions; and (vi) certain other subsidiaries whose assets and operations in the aggregate are not significant.

At February 1, 1976 Rapid owned 62.5% of the McCrory common stock outstanding. In connection with the merger of a wholly-owned subsidiary of Rapid with and into McCrory on March 12, 1976, which was accounted for as a purchase transaction in which Rapid was the acquiring corporation, (i) 947,743 shares of Rapid common stock were exchanged for all of the outstanding shares of McCrory common stock (other than shares held by Rapid), (ii) all other McCrory securities remained outstanding, with certain McCrory securities becoming convertible or exercisable into Rapid common stock pursuant to the terms of the merger, and (iii) McCrory retired its common stock held in treasury.

To facilitate comparisons with the current year, certain amounts in the prior years have been reclassified.

Minority interest in consolidated subsidiaries consists of preferred and preference stocks of subsidiaries not held by Rapid and its subsidiaries.

Inventories

During the year ended January 31, 1979, the last-in, first-out ("LIFO") method of valuing substantially all inventories was adopted, which reduced net income by approximately $12,600,000 ($1.44 per primary share and $1.15 per fully diluted share). This change was made because management believes the LIFO method more clearly reflects the results of operations by matching current costs with current revenues.

Since the January 31, 1978 ending inventories are the opening LIFO inventories for the year ended January 31, 1979, there is no cumulative effect of the change on retained earnings at the beginning of this year and results of operations for the prior years assuming retroactive application are not determinable.

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $284,292,000, $327,090,000 and $356,192,000, respectively, for the years ended January 31, 1979, 1978 and 1977.

Property, Plant and Equipment

It is the policy of Rapid and its subsidiaries to provide for depreciation of depreciable properties at rates designed to extinguish the cost thereof over the estimated service lives of

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the properties. The approximate annual rates of depreciation and amortization, which have been computed generally on the straight-line method, are as follows:

	Rates of Depreciation and Amortization
Buildings, etc.	2 to 20%
Furniture, fixtures and automobiles	2½ to 33⅓%
Machinery and equipment	4 to 33⅓%
Leased property under capital leases	Term of lease
Leasehold improvements	Term of lease or estimated service life of improvement, whichever is less.

Expenditures for maintenance and repairs are charged to income or costs of production as incurred. Expenditures for renewals which extend the estimated service lives of the properties, and the cost of betterments of such properties, are charged to the appropriate fixed asset accounts.

At the time of sale or disposition of assets, the cost and related accumulated depreciation or amortization are eliminated from the accounts, and any gains or losses are reflected in income.

Excess of Cost of Investments Over Related Equities and Franchises

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $113,508,000 at January 31, 1979 and $113,518,000 at January 31, 1978, has been recognized as being similar in nature to intangibles which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Note 4). Franchises which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits, have continuing value and accordingly are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $139,550,000 (after accumulated amortization of $23,130,000) at January 31, 1979 and $137,437,000 (after accumulated amortization of $19,164,000) at January 31, 1978, and the portion of franchises, amounting to $13,428,000 (after accumulated amortization of $2,517,000) at January 31, 1979 and $13,827,000 (after accumulated amortization of $2,119,000) at January 31, 1978, acquired from Glen Alden's minority interest subsequent to October 31, 1970 are being amortized on the straight-line method over forty years (see Note 4). These excess costs and franchises have not been otherwise written down, as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

Excess of Net Assets Acquired Over Related Costs

The excess, amounting to $6,972,000 at January 31, 1979 and $8,918,000 at January 31, 1978 (after accumulated amortization and other adjustments of $17,801,000 and $15,855,000, respectively), of the net assets acquired in the acquisition of J. J. Newberry Co. in 1972, over the aggregate cost was attributed to property accounts, is included in accumulated depreciation and amortization, and is being amortized (as a reduction of depreciation) over a ten year period, the estimated useful life of the property. Such amortization amounted to $1,946,000, $1,974,000 and $1,995,000, respectively, for the years ended January 31, 1979, 1978 and 1977.

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2. *Investments and Advances*

Otasco Credit Corporation—Otasco, Inc. has a financing agreement with Otasco Credit Corporation under which it sells certain customers' accounts receivable. Otasco, Inc. receives 90% of the amount of accounts sold and repurchases accounts in default, as defined. Otasco, Inc.'s 10% equity in accounts receivable sold is included in trade receivables in the consolidated balance sheets.

The condensed balance sheets of Otasco Credit at January 31, 1979 and 1978 are as follows:

	January 31,	
	1979	1978
	(In Thousands)	
Assets:		
Customers' accounts receivable purchased, net of 10% withheld pending collection ($5,360,000 and $4,651,000)	$48,243	$41,866
Cash	5,776	4,651
Total assets	54,019	46,517
Liabilities:		
Notes payable to banks	38,500	31,000
Accrued interest and sundry	79	263
Due to affiliated companies	136	98
Total liabilities	38,715	31,361
Rapid's carrying value (including $14,000,000 of subordinated notes payable to McCrory and subsidiaries)	$15,304	$15,156

Net income of Otasco Credit was $148,000, $114,000 and $42,000, respectively, for the years ended January 31, 1979 and 1978 and for the period from September 1976 (date operations commenced) to January 31, 1977; and is included in consolidated net income.

On September 1, 1976, Otasco Credit entered into an agreement with a regional bank group for a revolving credit line in the initial aggregate principal amount of $25,000,000 (increased to $38,500,000 at January 31, 1979) secured by substantially all of Otasco, Inc.'s trade accounts receivable. The agreement expires on June 30, 1979. Otasco Credit and the lenders are presently discussing a proposed extension of this agreement. The present agreement provides, among other things, for an interest rate of ¾ of 1% above prime and maintenance of compensating balances equal to 15% of the borrowings. As of January 31, 1979 and 1978 the interest rates were 12.5% and 8.75%, respectively. The average amount of notes payable to banks outstanding during the years ended January 31, 1979 and 1978 was approximately $30,900,000 and $28,600,000, respectively, and the weighted average interest rates were approximately 9.9% and 7.7%, respectively.

ILC Industries, Inc.—At January 31, 1979 and 1978, Rapid owned 555,054 shares (74%) of ILC common stock. Rapid's loans and advances to ILC aggregated approximately $5,400,000 at January 31, 1979 and $5,100,000 at January 31, 1978. Under ILC's bank agreement, repayment of advances made by Rapid on an open account basis is subordinated to ILC's bank debt. Rapid has also agreed not to dispose of any of its capital stock of ILC without the prior written consent of ILC's bank lenders. ILC reported net income of $1,050,000 for the year ended December 31, 1978.

Separate financial statements have not been presented for any non-consolidated subsidiary since, considered in the aggregate as a single subsidiary, they do not constitute a "significant subsidiary".

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3. *Inventories*

Inventories at the lower cost or market consisted of the following:

	January 31, 1979	January 31, 1978
	(In Thousands)	
At LIFO cost—whiskey, other spirits and wine.		
In bond	$212,767	$ —
Tax paid	39,695	—
At cost—whiskey, other spirits and wine·		
In bond	54,971	279,118
Tax paid	—	36,629
Principally LIFO.		
Merchandise at stores and warehouses	231,753	—
Raw materials and supplies	8,188	—
Principally first-in, first-out and average cost:		
Merchandise at plants and warehouses	29,079	75,038
Work in process	11,249	10,668
Raw materials and supplies	23,351	33,173
Retail method—merchandise at stores and warehouses	1,115	134,987
At identified cost—merchandise in transit, at warehouses and restaurants	4,047	31,251
Total	$616,215	$600,864

The excess of replacement cost over stated LIFO values amounted to approximately $91,000,000 at January 31, 1979.

Inventories used in computing cost of goods sold were as follows:

February 1, 1976	$593,890,000
January 31, 1977	593,421,000
January 31, 1978	585,025,000
January 31, 1979	608,493,000

4. *Intangibles*

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31, 1979	January 31, 1978
	(In Thousands)	
Glen Alden, principally Schenley	$174 614	$169,514
Lerner	65,526	65,538
McCrory	19,360	18,379
Rapid-American Menswear	14,592	14,592
Other	2,096	2,096
Total*	276,188	270,119
Less accumulated amortization	23,130	19,164
Net	$253,058	$250,955

* Includes $162,680,000 and $156,601,000 respectively, at January 31, 1979 and 1978, which is being amortized over forty years (see Note 1)

Franchises which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits amounted to $47,483,000 at January 31, 1979, after accumulated amortization of $2,517,000 and $47,881,000 at January 31, 1978, after accumulated amortization of $2,119,000.

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Rapid's equity in the net income of Schenley was $11,567,000 (after a reduction of $10,681,000 as a result of the adoption of LIFO) and $22,056,000, respectively, for the years ended January 31, 1979 and 1978. The net assets of Schenley at such dates were $335,623,000 and $350,256,000, respectively. Rapid carries its investments in subsidiaries, including Schenley, at equity, plus, when applicable, the excess of the aggregate cost over the equity in underlying net assets acquired at dates of acquisition, including the portion allocated to franchises.

5. *Indebtedness*

Short-Term

There was no short-term debt outstanding at January 31, 1979. At January 31, 1978, short-term debt consisted of notes payable to banks of $110,000,000 at an average interest rate of 8.1%. The maximum amount of short-term bank debt outstanding at any month-end was $167,000,000 and $256,000,000, respectively, during the years ended January 31, 1979 and 1978. The average amount of short-term bank debt outstanding was approximately $128,000,000 and $198,000,000, respectively, during the years ended January 31, 1979 and 1978 (calculated as the average of the month end borrowings outstanding) and the weighted average interest rates on such debt were approximately 10.4% and 7.5%, respectively (calculated by dividing the interest expense during the period for such borrowings by the average short-term bank borrowings). Lines of credit available for short-term bank borrowings aggregated approximately $137,000,000 at January 31, 1979 (see *McCrory Agreement* and *Schenley Agreements*).

Schenley and McCrory, under compensating balance arrangements, are generally expected to maintain cash balances of up to 10% of the lines of credit and of up to 10% of the loans outstanding under these lines. Such requirements were generally satisfied by maintenance of the required balances.

The average weekly cash book balances with various banks having a credit relationship with Rapid and its consolidated subsidiaries were approximately $43,000,000 and $58,000,000, respectively, during the years ended January 31, 1979 and 1978. The aforementioned balances were subject to withdrawal at any time.

Long-Term

Consolidated long-term debt at January 31, 1979 and 1978 was as follows:

	January 31,		Interest Rates at January 31, 1979	
	1979	1978	Stated Percent	Effective Percent
	(In Thousands)			
Notes payable to banks	$172,983	$133,500	12-14.3	12-14.3
Notes payable to insurance companies	115,000	71,500	10	10
Subordinated indebtedness	657,193	662,089	5-12	5-14
Notes and mortgages payable	7,824	8,145	2-12.5	2-12.5
Total principal	953,000	875,234		
Less:				
Current maturities	(21,412)	(18,586)		
Unamortized discount	(119,547)	(125,004)		
Total	$812,041	$731,644		

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Details of consolidated long-term debt at January 31, 1979 and 1978 are as follows:

Description	Effective Interest Rate (%)	January 31, 1979	January 31, 1978
		(In Thousands)	
Notes payable to banks:			
Rapid	14.3	$ 79,483	$133,500
McCrory	14.3	35,000	—
Schenley	12.0	58,500	—
Notes payable to insurance companies-Schenley:			
10% notes due to 1991	10.0	115,000	—
6½% notes due 1979	—	—	71,500
Subordinated indebtedness:			
5% Jr. SF debentures due 1981*	5.0	6,597	9,228
5¼% notes due to 1981*	5.3	3,104	4,137
6½% SF debentures due 1982*	8.7	3,905	7,407
7½% SF debentures due to 1985	9.4	44,810	66,538
10½% SF debentures due to 1985*	11.3	8,279	8,871
6% SF debentures due 1988	8.0	102,114	109,941
6½% convertible debentures due 1992*	6.9	3,379	3,379
7% debentures due 1994 (1969 issue)	9.3	51,766	51,766
7% debentures due 1994 (1972 issue)	9.9	66,277	66,277
7½% SF debentures due to 1994*	9.5	55,481	58,941
6½% convertible debentures due 1994*	6.5	1,132	1,132
7¾% SF debentures due to 1995*	12.1	62,443	65,994
7⅝% SF debentures due to 1997*	9.8	55,459	55,337
12% SF debentures due to 1999	12.9	17,926	—
10¾% SF debentures due to 2003	13 7	153,141	153,141
10¾% SF debentures due to 2004	13.7	5,870	—
11% SF debentures due to 2005	14 0	15,510	—
Notes and mortgages payable.			
Rapid	5 7	4,965	5,207
McCrory	6.7	1,778	1,788
Other subsidiaries	11.4	1,081	1,150
Total principal amount		$953,000	$875,234

* Subordinated indebtedness of McCrory or one of its subsidiaries.

Aggregate principal amount of long-term debt at January 31, 1979 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1980	$ 21,412	1984	$220,148
1981	28,740	1989	225,367
1982	35,337	1994	170,462
1983	90,983	1999	230,466
1984	43,676	2004	97,229
		2009	9,328
	$220,148		$953,000

At January 31, 1979, notes and mortgages payable aggregating approximately $6,600,000 were secured by land, buildings and equipment having an approximate carrying value of $9,500,000.

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Rapid Agreement

On April 14, 1978, Rapid modified its then existing indebtedness with eleven banks and the Federal Deposit Insurance Corporation (the "Banks") under a term loan agreement dated as of October 31, 1975 (the "Rapid Agreement"). At January 31, 1979 and 1978, $79,483,000 and $133,500,000, respectively were outstanding. Rapid's indebtedness to the Banks at January 31, 1979 is payable in annual installments from December 31, 1979 through December 31, 1983 in the following amounts: $14,500,000, $22,000,000, $22,000,000, $13,983,000 and $7,000,000, respectively.

The Rapid Agreement provides for mandatory prepayments, in certain cases, out of the proceeds from the sale of assets. Interest is payable at the rate of 115% of the prime rate, plus ¾ of 1% per annum. The prime rate was 11¾% and 8% at January 31, 1979 and 1978, respectively. There are no compensating balance requirements. The indebtedness under the Rapid Agreement and Rapid's obligations under the guarantee of the McCrory Term Loan Agreement are secured by the pledge of the shares of capital stock of McCrory, Schenley and Rapid's other operating subsidiaries. The Rapid Agreement also contains various covenants relating to Rapid's financial position, including minimum levels of working capital and net worth on a consolidated basis (excluding McCrory). It also contains various limitations on actions that may be taken, including the incurrence of indebtedness, guarantees, lease commitments, the disposition of property, business combinations, capital expenditures, investments and the payment of dividends. The payment of cash dividends by Rapid on its common stock continues to be subject to a test based on income. Rapid may pay such dividends (not to exceed $3,200,000 in any one year) and may purchase subordinated debentures, exclusive of mandatory sinking fund requirements, in an aggregate amount of up to 50% of the difference between (i) its after-tax earnings (as defined) through the end of the previous fiscal year less, during the fiscal years commencing February 1, 1978 through February 1, 1983, the amounts of $17,000,000, $37,000,000, $62,000,000, $92,000,000, $127,000,000 and $162,000,000, respectively, and (ii) such cash dividends and purchases theretofore paid or made; provided, that Rapid will have to prepay the installments under the Rapid Agreement in their inverse order of maturity in an amount equal to any common stock cash dividends paid and subordinated debentures purchased.

On April 14, 1978, McCrory borrowed $35,000,000 from certain of the Banks and utilized the proceeds to prepay certain notes due Rapid. Rapid concurrently reduced its bank indebtedness by $35,000,000. The McCrory indebtedness ("McCrory Term Loan Agreement") is guaranteed by Rapid, bears interest at the rate prescribed under the Rapid Agreement and is payable in annual installments commencing December 31, 1982 through December 31, 1984 in the following amounts: $5,000,000, $15,000,000 and $15,000,000, respectively.

Rapid and McCrory are discussing with the Banks a restructuring of their present bank indebtedness. It is contemplated that upon completion of such restructuring, Rapid will have no bank indebtedness and McCrory will have a three year revolving credit line of $75,000,000 and long-term bank indebtedness of $75,000,000 payable in annual installments commencing December 31, 1979 through December 31, 1983 in the following amounts: $5,000,000, $10,000,000, $15,000,000, $20,000,000 and $25,000,000, respectively. The covenants and restrictions under the new McCrory borrowings, which will be secured by the outstanding capital stock of Lerner, will be similar to those in the present McCrory Revolving Credit Agreement (see *McCrory Agreement*). In addition, Rapid will guarantee McCrory's obliga-

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tions thereunder, which guarantee will be collateralized by Rapid's pledge of the outstanding capital stock of its operating subsidiaries.

McCrory Agreement

At January 31, 1979, the McCrory revolving credit agreement ("Revolving Credit Agreement"), with eight banks and the FDIC provides for an aggregate credit of $72,000,000 expiring June 30, 1979 (see last paragraph of *Rapid Agreement* above). The interest charge is at the rate of the higher of ¾% above the prime rate or 1¼% above the commercial paper rate (as defined) on an annual basis. The Revolving Credit Agreement also provides for a commitment fee of ½ of 1% per annum on the average unused portion of the committed lines. At January 31, 1979 and 1978 there were no notes outstanding.

To secure the loans, McCrory granted to the banks and the FDIC security interest in (i) all of the outstanding capital stock of Lerner, (ii) a note of Newberry in the principal amount of $41,500,000 payable to McCrory and (iii) certain accounts receivable of McCrory payable by Newberry. McCrory's obligations under the Revolving Credit Agreement are guaranteed by its subsidiaries, other than Newberry and its subsidiaries and Otasco and its subsidiaries. The Revolving Credit Agreement requires McCrory to maintain compensating balances averaging 10% of the outstanding borrowing and 10% of the total credit line. There are no legal restrictions on the withdrawal of such funds. If compensating balances are not maintained, a deficiency fee will be incurred.

The Revolving Credit Agreement also requires McCrory to maintain minimum levels of (i) consolidated tangible net worth plus subordinated indebtedness, (ii) consolidated net current assets and (iii) ratios of consolidated current assets to current liabilities (as each term is defined). The Revolving Credit Agreement and other agreements covering certain indebtedness contain certain other material restrictions on McCrory and its subsidiaries, including restrictions on indebtedness, liens, guarantees, lease commitments, capital expenditures, the disposition of property, investments and the right to engage in business combinations. Furthermore, the Revolving Credit Agreement restricts the amount of McCrory's indebtedness to Lerner and restricts the amounts of dividends which may be declared by Lerner to 100% of its net income. McCrory may pay cash dividends on its common stock out of cash flow (as defined); approximately $23,000,000 at January 31, 1979 is available for dividends. McCrory may pay cash dividends on its preferred and preference stocks in accordance with the stated dividend rates. In the event that the Revolving Credit Agreement is terminated, the covenants contained in the McCrory Term Loan Agreement (see *Rapid Agreement* above) would become effective. Such covenants are similar to those contained in the Revolving Credit Agreement. In addition, under certain circumstances specified in the McCrory Term Loan Agreement, McCrory may have to pledge the outstanding capital stock of Lerner to secure its indebtedness thereunder.

Schenley Agreements

On December 18, 1978, Schenley entered into a loan agreement with a group of insurance companies ("Schenley Loan Agreement"), pursuant to which Schenley borrowed $115,000,000 evidenced by 10% promissory notes due to December 1, 1991. Of this amount, $71,500,000 was applied to the prepayment of the balance of 6½% promissory notes due

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March 1, 1979. The balance of $43,500,000 was used to pay indebtedness to banks due under a revolving credit agreement dated December 20, 1977, as extended, and the commitment of the banks to lend monies thereunder was correspondingly reduced from $188,500,000 to $145,000,000. At January 31, 1979, the balance outstanding under the revolving credit agreement was $58,500,000. On February 14, 1979, Schenley entered into a new revolving credit agreement with the same group of banks ("Schenley Revolving Credit Agreement"), which had been parties to the 1977 agreement. The Schenley Revolving Credit Agreement provides that Schenley may until February 28, 1982 borrow up to an aggregate amount of $80,000,000. In addition, Schenley has confirmed short-term lines of credit which permit it to borrow $65,000,000.

The Schenley Loan Agreement provides, among other things, for required annual payments beginning December 1, 1979 of specified principal amounts, without premium. Prepayments are permitted without penalty each year up to the amount of the mandatory payment for that year provided that the aggregate principal amounts so prepaid may not exceed $28,750,000. Additional prepayments may be made, in certain circumstances, with a penalty of 10% in the first year, decreasing in equal amounts until the last year, during which there is no penalty.

The Schenley Revolving Credit Agreement provides, among other things, that borrowings thereunder are to bear interest at the rate of 108% of prime rate, for a commitment fee at the rate of ½ of 1% per annum on the average unused portion of a bank's commitment and that if balances equal to 8% of the average daily commitment are not maintained, a deficiency fee will be incurred.

The Schenley Loan Agreement and the Schenley Revolving Credit Agreement also contain certain limitations relating to Schenley's financial position, its indebtedness, liens, and investments in companies which are not wholly-owned subsidiaries. Commitments to make lease payments are restricted and transactions with affiliates, including Rapid, are significantly restricted. Schenley may pay cash dividends on its common stock in an amount up to 50% of its net income.

Accounts Receivable Financing Agreements

On August 27, 1975, Lerner entered into an agreement which currently expires in August 1979, subject to a one year renewal at Lerner's option, with Citicorp Custom Credit, Inc. ("Custom"), pursuant to which Custom purchases and services substantially all of Lerner's accounts receivable arising from sales to customers by Lerner and its subsidiaries. The accounts receivable are currently purchased by Custom without recourse for 92% of their face amount. The agreement imposes restrictions on Lerner holding securities and debt of McCrory and Rapid, the payment of dividends on Lerner's capital stock, and Lerner guaranteeing the obligations of others and entering into certain transactions with McCrory and Rapid. At the termination of the agreement Lerner is obligated to repurchase all then eligible outstanding accounts receivable at their face amounts. Custom may, under certain circumstances, require Lerner to repurchase such accounts receivable, in which event Lerner may be required to resume credit operations.

Certain other subsidiaries of Rapid have, at January 31, 1979, accounts receivable financing agreements under which they may borrow up to a maximum of $22,000,000.

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6. *Preferred Stocks*

Cumulative convertible preferred stocks of Rapid are as follows:

	$3 Preferred(a)	$3.15 Preferred(a)	$2.25 Junior Preferred ($2 Par Value)
Number of shares:			
Authorized	2,172,995	1,300,000	397,777
Outstanding.			
January 31, 1979	97,355	5,553	228,225
January 31, 1978	109,575	5,608	264,534
Aggregate par or stated value at January 31, 1979	$5,292,000	$340,000	$456,000
Aggregate liquidation preference at January 31, 1979(b)	$10,222,000	$583,000	$10,270,000
Liquidation value per share	$105	$105	$45
Common stock conversion rate per share(c)	3.572 for 1	3.877 for 1	3.2 for 1
Shares of common stock reserved for conversion of preferred stock outstanding	347,752	21,528	730,320

(a) Without par value.

(b) The excess ($14,987,000) of aggregate liquidation preference over par or stated value imposes no restriction upon the payment of cash dividends.

(c) The conversion rates of the preferred stocks are subject to anti-dilution adjustments under certain circumstances.

During the years ended January 31, 1979, 1978 and 1977 conversions of preferred stocks were as follows:

	Year Ended January 31,		
	1979	1978	1977
Shares of preferred stock converted.			
$3 Preferred	12,220	10	64
$3.15 Preferred	55	40	188
$2 25 Junior Preferred	36,309	—	—
Shares of common stock issued	160,029	187	952

7. *Common Stock, Warrants and Options*

Common Stock

At January 31, 1979, Kenton Corporation ("Kenton") owned approximately 24% of the outstanding shares of Rapid common stock, acquired from Meshulam Riklis, Isidore A. Becker and unaffiliated private investors. In its filings with the Securities and Exchange Commission, Kenton stated that its purpose in acquiring such shares of Rapid common stock was to obtain control of the management and business of Rapid. Certain of Rapid's officers, directors and employees are also officers and directors of Kenton. More than 40% of the outstanding shares of Kenton common stock is owned by (i) a trust for the benefit of Mr. Riklis' children and grandchildren, (ii) Mr. Riklis' children, their spouses and the other trustees and (iii) a director and officer of Rapid and his children.

In December 1978, Rapid issued $15,510,000 principal amount of its 11% sinking fund subordinated debentures due 2005 and 465,288 warrants in exchange for 930,576 shares of its common stock.

At January 31, 1979 an aggregate of 359,293 shares of Rapid common stock were reserved for (i) conversion of McCrory preference stock (8,245 shares), (ii) conversion of McCrory debentures (48,271 shares) and (iii) issuance upon exercise of McCrory warrants outstanding (302,777 shares).

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Warrants

Warrants were outstanding at January 31, 1979 and 1978, entitling their holders to purchase 5,431,171 shares (including 1,000,000 warrants to be issued in settlement of certain litigation, recognized in the financial statements at January 31, 1979) and 3,965,883 shares, respectively, of Rapid's common stock at an exercise price of $35 per share with terms subject to adjustments under certain circumstances and redeemable at Rapid's option at $20 per warrant, expiring May 15, 1994. Rapid issued 465,288 warrants in December 1978 pursuant to an exchange offer for its common stock and no warrants were issued during the year ended January 31, 1978. At January 31, 1979 and 1978, McCrory owned 155,368 warrants (excluded above) and 76,306 and 76,806 shares, respectively, of Rapid's common stock, which have been included with treasury stock.

Option Plans

During the years ended January 31, 1979, 1978 and 1977, no options were granted or exercised and options to purchase 380,100, 17,024 and 54,850 shares, respectively, at prices ranging from $11.63 to $25 were cancelled.

8. *Reserves For Closed Facilities*

S. Klein Department Stores, Inc.—In March 1975 (reflected in the financial statements as of January 31, 1975), management of McCrory decided to phase out completely the operations of S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory. While it was not then possible to determine the ultimate loss to be incurred in connection with such phase-out, a provision of $58,300,000 for the estimated losses to be incurred in phasing out the S. Klein operations, less related deferred Federal income tax benefit of $26,800,000, was established based upon various assumptions which management then believed were realistic. In December 1975 and January 1978, management of McCrory determined that additional provisions of $16,400,000 and $14,500,000, respectively, less related deferred Federal income tax benefits of $7,900,000 and $7,000,000, respectively, were necessary based upon losses incurred and revised estimates of additional future losses to be incurred (including the transactions with Korvettes, Inc. described below). Such estimated losses and charges consist of the following:

	Provisions			As of January 31, 1979	
	Year Ended January 31,				
	1978	1976	1975	Accumulated Charges	Balance*
		(In Thousands)			
Write-down of assets to net realizable value	$ —	$ 1,755	$24,126	$25,881	$ —
Present value of future lease commitments and real estate taxes, net of estimated recoveries	9,936	6,320	24,110	25,296	15,070
Estimated losses during phase-out period and other related costs	4,564	8,325	10,064	16,809	6,144
	14,500	16,400	58,300	$67,986	$21,214
Less Federal income tax benefit	7,000	7,900	26,800		
Estimated losses	7,500	8,500	31,500		
Less minority interest	—	3,191	11,818		
Rapid's equity therein	$ 7,500	$ 5,309	$19,682		

* The balance at January 31, 1979 consists of $3,851,000 (current) and $17,363,000 (long-term).

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The program of phasing out the S. Klein stores resulted in all nineteen stores being closed by the end of August 1975. Management of McCrory has completed the disposition of eleven of the stores, which includes the disposition of five stores to Korvettes, Inc., has sublet major portions of three other stores and is attempting to make further dispositions. Additional adjustments may be required based upon the results of efforts to make further dispositions of leased premises. At January 31, 1979, the present value of remaining future lease commitments and real estate taxes relating to the premises which have not yet been disposed of, assuming no additional recoveries, is approximately $6,500,000 (before giving effect to income taxes) in excess of that which has been provided for (see Note 13). It is the opinion of management of Rapid that the ultimate resolution of the S. Klein phase-out will not have a material effect upon Rapid's consolidated financial position.

As of October 1, 1975, McCrory assigned its rights as tenant under leases for five S. Klein store locations to Korvettes, Inc., a then wholly-owned subsidiary of Arlen Realty & Development Corp. As part of the transaction, McCrory sold to Korvettes all of the leasehold improvements and certain trade fixtures located in such stores for $3,916,000 in notes, payable in monthly installments over 18 years. At January 31, 1979, the notes aggregated $3,164,000 of which $2,918,000 is included in "other assets" in the consolidated balance sheet. Korvettes has assumed McCrory's obligations under such leases, including the obligation to pay substantially all of the rent, real estate taxes and other charges. The aggregate minimum annual rental payments under such leases range from approximately $2,000,000 in the year ending January 31, 1980 to approximately $800,000 in the year ending January 31, 2000, and aggregate approximately $27,000,000 for the period commencing February 1, 1979 and ending upon expiration of the initial terms of such leases. Real estate taxes and other charges payable under such leases aggregated approximately $1,200,000 in the year ended January 31, 1976. Korvettes has the right to renew three of such leases, if its net worth is at least $80,000,000 at the times of renewal; such renewal terms would commence in 1985 and end in 2023, at minimum annual rentals aggregating approximately $26,200,000 over the renewal period. In addition, McCrory had renewed its lease for one S. Klein store location, which was to expire in 1984, for a 25 year term, and had sublet to Korvettes, for a 26 year term commencing in 1983, the main building of such premises. The lease for the entire store location provides for a minimum annual rental of $475,000, plus real estate taxes and other charges which aggregated approximately $375,000 in the year ended January 31, 1976. The agreement to sublease this store to Korvettes was subsequently terminated concurrently with a subleasing of the store to Alexander's, Inc. for a term of 20 years commencing in April 1977 at an annual miminum rental of $663,000 for the first 10 years and $588,000 annually for the balance of the initial term, and a proportionate share of real estate taxes. As consideration for the termination of the sublease with Korvettes, McCrory agreed to pay to Korvettes the sum of $3,500,000 and gave its promissory notes aggregating that amount bearing interest on the unpaid balance at the rate of 10% per annum. On February 1, 1977 McCrory prepaid the notes in full. McCrory recorded a pretax loss of approximately $1,300,000 in the year ended January 31, 1977 relating to such store location. McCrory has not been released by its landlords from any of its obligations under the foregoing leases. As part of the Korvettes transaction, McCrory had subleased, commencing January 1, 1976, two stores (including certain trade fixtures located therein) formerly operated by Arlen or its affiliates. McCrory was liable under these subleases, which were to expire in 1984, for payments of not more than an aggregate of approximately $9,700,000. In July 1977, McCrory terminated its subleases of the Arlen stores for a cash payment to Arlen of $2,417,000. In March 1979 Arlen Realty & Development Corp. sold its interest in Korvettes to the Agache-Willot Group.

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Store Closing Programs—In February 1976, management of McCrory decided to terminate certain variety store and Britts department store operations in the mid-western region of the United States and, accordingly, as of January 31, 1976, recorded a provision of $13,400,000 (before related Federal income tax benefit of approximately $6,400,000 and minority interest of approximately $2,600,000) principally for the estimated losses to be incurred in connection with the termination of such operations. Such estimated losses and charges consist of the following:

	Provision Year Ended January 31, 1976	As of January 31, 1979 Accumulated Charges	Balance*
		(In Thousands)	
Write-down of assets to net realizable value	$ 5,091	$3,693	$1,398
Present value of future lease commitments and real estate taxes, net of estimated recoveries	10,200	4,508	5,692
Other related costs	850	623	227
	16,141	$8,824	$7,317
Less portion charged to excess of net assets acquired over related costs	2,741		
Provision	$13,400		

* The balance at January 31, 1979, consists of $634,000 (current) and $6,683,000 (long-term).

Disposition of Certain Manufacturing Operations—In April 1975, management of Rapid decided to dispose of certain operations and as of January 31, 1975 a provision of $10,441,000 was established for the estimated losses expected to be incurred. In the three years ended January 31, 1978 additional provisions aggregating $4,979,000 were established, based upon losses incurred and revised estimates of additional future losses to be incurred. At January 31, 1979, the reserve balance was approximately $800,000.

9. *Income Taxes*

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid, Glen Alden and McCrory have been substantially completed for the periods ended January 31, 1970, November 2, 1972 and January 31, 1974, respectively. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amount accrued in the consolidated balance sheet, in the opinion of management, is adequate to cover amounts which may ultimately be payable.

On December 1, 1977, Rapid acquired additional shares of McCrory preference stocks which resulted in McCrory and its domestic subsidiaries being included in Rapid's consolidated Federal income tax return from December 1, 1977. The operating losses of Rapid (exclusive of McCrory) for the year ended January 31, 1978 were offset by McCrory's earnings for the two month period ended January 31, 1978, thereby providing Rapid with a lower effective Federal income tax rate.

At January 31, 1976, McCrory had estimated net operating loss carryforwards on a financial statement basis of approximately $10,000,000 whereas on a tax return basis it had net operating loss carryforwards of approximately $38,000,000. The tax benefit of the financial statement net operating loss carryforwards was recognized in prior periods. Through December 1, 1977, it is estimated that McCrory utilized its net operating loss carryforwards on a tax return basis.

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For the year ended January 31, 1977, Rapid incurred a net operating loss on a tax return basis of approximately $17,000,000 which Rapid elected to carryforward. It is estimated that Rapid utilized such carryforward in the year ended January 31, 1979, and, accordingly, the benefit of such carryforward, net of applicable deferred taxes, together with an investment tax credit carryforward have been reported as an extraordinary credit.

The provisions for income taxes included in the statements of consolidated income consisted of the following:

	Year Ended January 31,		
	1979	1978	1977
	(In Thousands)		
Continuing operations.			
Federal:			
Currently payable	$16,085	$ 3,296	$ 4,003
Charge equivalent to tax effect of loss carryforwards and credits	4,844	—	—
Deferred	8,833	16,642	10,593
Foreign:			
Currently payable	2,204	1,958	1,973
Deferred	(566)	(423)	184
State	9,785	10,415	7,602
	41,185	31,888	24,355
Discontinued operations—Federal:			
Currently payable	(1,755)	(3,231)	(3,038)
Deferred	1,755	(3,769)	3,038
	—	(7,000)	—
Total	$41,185	$24,888	$24,355

Available investment tax credits of approximately $2,500,000, $2,100,000 and $780,000, respectively, for the years ended January 31, 1979, 1978 and 1977 were applied as reductions of Federal income tax provisions.

Deferred income taxes relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes and the effects of net operating loss, investment tax credit, and contribution carryovers on a tax return basis. The sources of these differences attributable to continuing operations and the tax effect of each were as follows:

	Year Ended January 31,		
	1979	1978	1977
	(In Thousands)		
Application of tax return carryovers	$ —	$13,007	$ 7,965
Reduction in reserves for store closing programs	2,217	1,387	3,015
Deferred gross profit on installment sales	1,356	1,053	576
Excess of tax over book depreciation	1,545	(259)	(305)
Other	3,149	1,031	(474)
Total	$ 8,267	$16,219	$10,777

Deferred income taxes relating to discontinued operations result from additions and charges to the reserve for phasing out the S. Klein operations.

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The income tax provision relating to continuing operations for the years ended January 31, 1979, 1978 and 1977 amounted to $41,185,000, $31,888,000 and $24,355,000, respectively, representing effective income tax rates of 52.5%, 55.9% and 66.2%, respectively. These amounts are different than the amounts of $37,512,000, $27,363,000 and $17,671,000, respectively, computed by applying the statutory Federal income tax rate to income attributable to continuing operations before provision for income taxes and minority interest. The reasons for the variances from the statutory rate are as follows:

	Year Ended January 31,		
	1979	1978	1977
		(Percent of Pre-tax Income)	
Computed statutory rate applicable to the period	47 8%	48 0%	48.0%
Increase (decrease) in income tax rate resulting from:			
State tax provision (net of Federal income tax benefit)	6.5	9.5	10.8
Investment tax credit	(3 1)	(3 7)	(2.1)
Amortization of excess of cost of investments over related equities and other intangibles	2.7	3 8	5.9
Amortization of excess of equity over cost of investment	(1.2)	(1.7)	(2.6)
Foreign income	(.6)	(.2)	(.1)
Operating losses not tax effected	—	—	6 3
Other	.4	.2	—
Effective income tax rate	52.5%	55.9%	66.2%

The cumulative amount of undistributed earnings of subsidiaries on which Rapid or its subsidiaries may be required to recognize income taxes upon distribution amounted to approximately $62,500,000 at January 31, 1979. No provision has been made for taxes that would be payable upon distribution, since such earnings have been indefinitely reinvested.

10. *Pension Plans*

Rapid and its subsidiaries have various contributory and non-contributory pension plans covering eligible employees. The provision for pension costs relating to continuing operations under the plans was $11,165,000, $10,726,000 and $9,020,000 for the years ended January 31, 1979, 1978 and 1977, respectively. It is the general policy to fund pension cost accrued as required. As of January 31, 1979, the actuarially computed value of vested benefits under certain of the plans exceeded the total of the related pension funds and balance sheet accruals by approximately $25,000,000. Unfunded prior service cost amounted to approximately $40,000,000 at January 31, 1979, substantially all of which is being funded over various periods not exceeding thirty years.

Employment agreements with certain officers and employees of Rapid and its subsidiaries provide, among other things, for retirement and/or deferred compensation allowances payable over a period of years after employment ceases, contingent upon certain conditions set forth in the agreements. During the years ended January 31, 1979, 1978 and 1977, $1,751,000, $1,065,000 and $1,131,000, respectively, were provided for such allowances.

11. *Gains on Debenture Exchanges*

During 1978, Rapid issued $17,926,000 principal amount of 12% sinking fund subordinated debentures due 1999 in exchange for $21,728,000 principal amount of its 7½% sinking fund subordinated debentures due 1985. Rapid recorded an extraordinary gain of $1,105,000 on the exchange representing the difference between the carrying value of the debentures exchanged (the principal amount tendered reduced by applicable unamortized debt discount)

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and the present value of the debentures issued, reduced by applicable deferred income taxes of $1,107,000.

Rapid also issued in 1978 $5,870,000 principal amount of 10¾% sinking fund subordinated debentures due 2004 in exchange for $7,827,000 principal amount of its 6% sinking fund subordinated debentures due 1988. Rapid recorded an extraordinary gain of $1,242,000 on the exchange representing the difference between the carrying value of the debentures exchanged (the principal amount tendered reduced by applicable unamortized debt discount) and the present value of the debentures issued, reduced by applicable deferred income taxes of $612,000.

During 1977, Rapid issued $153,141,000 principal amount of 10¾% sinking fund subordinated debentures due 2003 in exchange for $204,187,000 principal amount of its 6% sinking fund subordinated debentures due 1988. Rapid recorded an extraordinary gain of $30,075,000 on the exchange representing the difference between the carrying value of the debentures exchanged (the principal amount tendered reduced by applicable unamortized debt discount) and the present value of the debentures issued, reduced by applicable deferred income taxes of $16,133,000.

The provision for income taxes relating to the extraordinary items are less than the statutory tax rate as a result of the non-taxability of the portion of the gain which will be allocated to Rapid's basis of its investment in Schenley as allowed under provisions of the Internal Revenue Code.

12. *Income Per Share of Common Stock*

Primary income per share for the years ended January 31, 1979, 1978 and 1977 are after deducting Rapid's preferred dividend requirements (including preferred dividend requirements of its consolidated subsidiaries of $920,000, $987,000 and $1,081,000) and are based upon the weighted average number of common shares outstanding during each year and in the year ended January 31, 1979, common stock equivalents arising from the assumed exercise of stock options and warrants and utilization of (i) a portion of the proceeds to acquire 20% of the outstanding shares of common stock and (ii) the balance of the proceeds to reduce outstanding debt (resulting in assumed interest savings net of income tax). No common stock equivalents are included in the computations for the years ended January 31, 1978 and 1977 because the assumed exercise of stock options and warrants would be anti-dilutive.

Fully diluted income per share amounts for the years ended January 31, 1979 and 1978 are based on the weighted average number of common shares outstanding increased by the number of common shares which would be issued assuming all dilutive convertible securities had been converted into common stock with appropriate adjustments having been made for related dividends and interest expense and, in the year ended January 31, 1979, dilution from stock options and warrants. Stock options and warrants were not included for the years ended January 31, 1978 and 1977 since their assumed exercise would be anti-dilutive.

Since earnings per share presented for the quarters (see Note 18) assume the exercise of stock options and warrants when the result for that quarter is dilutive, the total of the quarterly per share amounts do not agree to the full year totals.

13. *Lease Commitments*

Rapid has restated its financial statements to reflect the accounting for certain leases as capital leases by recording assets and liabilities for leased property and equipment in accordance with Statement of Financial Accounting Standards No. 13, "Accounting for

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Leases." This change had no effect on income since the previously reported rent expense on capital leases approximated the charge for amortization and interest expense. Retained earnings at February 1, 1976 has been reduced by $17,769,000, representing the cumulative effect (net of deferred income taxes), on prior years' net income, of applying the change in the method of accounting for capital leases retroactively.

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the initial leases generally range from 10 to 40 years and usually provide for one or more three to five-year renewal options, plus in many instances, the payment of additional rental based upon percentages of sales, real estate taxes, insurance and maintenance costs.

Property and equipment under capital leases is as follows:

	January 31,	
	1979	1978
	(In Millions)	
Buildings and store properties	$169 8	$177 3
Machinery and equipment	38 7	41 8
Less—accumulated amortization	(134 4)	(138 8)
Net	$ 74 1	$ 80 3

Amortization of property under capital leases is computed on a straight-line method and is included in depreciation and amortization expense.

The minimum rental commitments on leases of continuing operations in effect at January 31, 1979 are as follows:

Years Ending January 31,	Capital Leases	Operating Leases
	(In Millions)	
1980	$ 18 5	$ 49 1
1981	16.6	46 4
1982	15 2	43 8
1983	13 7	41 2
1984	12 5	37 9
Thereafter	103 5	282 6
Total minimum payments required*	180 0	$501 0
Less		
Amount representing estimated executory costs included in minimum lease payments	(7 0)	
Amount representing interest	(64.9)	
Present value of net minimum lease payments	108.1	
Less current portion	(10.8)	
Long-term obligation	$ 97 3	

* Minimum payments have not been reduced by minimum sublease rentals of $3.8 million under capital leases and $41.6 million under operating leases due in the future under noncancellable subleases Contingent rentals which may be paid under certain leases have not been included

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Rental expense relating to all operating leases of continuing operations is as follows:

	Year Ended January 31,		
	1979	1978	1977
	(In Millions)		
Minimum rentals	$52.3	$51.3	$49.6
Contingent rentals and expenses	22.7	19 9	19.9
Less—sublease rentals	(6.2)	(5.5)	(3 4)
Net	$68.8	$65.7	$66.1

Contingent rentals applicable to capital leases amounted to $2.7 million, $2.7 million and $2.0 million, respectively, in the years ended January 31, 1979, 1978 and 1977.

The minimum rental and real estate tax commitments of S. Klein at January 31, 1979, net of noncancellable subleases, and excluding the leases assigned to Korvettes (see Note 8) are as follows:

Years Ending January 31,	(In Millions)
1980	$ 2.8
1981	2.8
1982	2.8
1983	2.8
1984	3.0
1985-1989	13.3
1990-1994	10.4
1995-1999	3.9
Thereafter	7.7
	49.5
Less—amount representing interest	(27 9)
Present value of commitments	$21.6

14. *Litigation, Commitments and Contingencies*

Rapid and certain of its subsidiaries are defendants in various actions in which plaintiffs allege violations of securities laws, anti-trust laws, or corporation laws. Substantial damages or significant declaratory or injunctive relief are requested in these actions. In addition, actions are pending and there are asserted and unasserted claims against Rapid and certain of its subsidiaries by landlords, vendors, customers and others in which substantial damages are and may be requested. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, management, after discussions with counsel,is unable to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis. Additional information concerning legal proceedings involving Rapid and its subsidiaries is included in its Annual Report on Form 10-K; copies of which are available upon written request to the Secretary of Rapid-American Corporation.

Rapid was guarantor as of January 31, 1979 as follows: (a) $800,000 of mortgage notes previously held by Rapid or subsidiaries but sold to non-affiliates; (b) $37,400,000 of lease payments supporting industrial revenue bonds, $200.000 of other loans and approximately $30,400,000 of lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; and (c) other obligations of approximately $8,400,000, the majority of which are lease payments of subsidiaries.

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15. *Other Revenues and Interest and Debt Expense*

(a) Other revenues—net consisted of the following:

	Year Ended January 31, 1979	1978	1977
	(In Thousands)		
Interest income	$ 3,934	$ 2,263	$ 1,929
Income (loss) of unconsolidated subsidiaries:			
Otasco Credit	296	231	81
Other	(1,086)	(488)	(170)
Gain on cash purchases of subordinated debentures for sinking funds	1,221	189	2,624
Gain on sale of trademarks	—	—	4,089
Termination of capital leases	600	—	—
Sundry—net	2,913	2,111	6,019
Total	$ 7,878	$ 4,306	$ 14,572

(b) Interest and debt expense consisted of the following:

	1979	1978	1977
Interest on bonds, mortgages and similar debt	$ 58,955	$ 54,061	$ 54,018
Interest on notes payable to banks	29,621	27,340	27,391
Interest on capital leases	7,651	8,145	8,002
Amortization of debt discount and expense	5,447	7,720	7,820
Interest on accounts receivable financing			
Otasco Credit	4,818	3,529	3,629
Other	1,212	548	588
Other, principally imputed interest	3,563	2,586	2,359
Total	$111,267	$103,929	$103,807

16. *Supplementary Income Statement Information*

	Year Ended January 31, 1979	1978	1977	1979	1978	1977
	Consolidated			Company		
	(In Thousands)					
Maintenance and repairs	$ 19,455	$ 16,953	$ 16,718	$ 131	$ 139	$ 170
Depreciation and amortization of property, plant and equipment	$ 28,585	$ 28,251	$ 27,078	$ 585	$ 574	$ 569
Depreciation and amortization of intangible assets	$ 4,493	$ 4,464	$ 4,631	$2,888	$2,860	$2,869
Taxes, other than income taxes						
Property	$ 12,548	$ 12,619	$ 12,690	$ 50	$ 55	$ 52
Payroll	30,077	28,584	27,468	119	143	212
Federal e . se, rectification taxes and duties on imported products	263,761	293,997	318,796	—	—	—
State beverage taxes	20,531	33,093	37,396	—	—	—
Other	6,146	7,854	7,676	433	545	437
Total	$333,063	$376,147	$404,026	$ 602	$ 743	$ 701
Rents, before reductions for subrentals received from tenants	$ 77,650	$ 73,937	$ 71,553	$6,341	$6,425	$5,939
Advertising costs	$ 53,135	$ 47,243	$ 47,069	$ 84	$ 121	$ 514

All amounts shown above pertain to continuing operations.

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17. *Accrued Expenses and Sundry*

Accrued expenses and sundry consisted of the following:

	January 31, 1979	January 31, 1978
	(In Thousands)	
Taxes, other than Federal and foreign income	$ 46,797	$ 49,308
Salaries, wages, commissions, etc.	20,956	17,232
Interest	16,211	17,375
Contributions to employees' pension plans	13,904	14,005
Rents	8,766	7,529
Reserves for store closings	5,708	7,112
Other	24,945	22,450
Total	$137,287	$135,011

18. *Interim Financial Information (Unaudited)*

	Quarter Ended April 30	July 31	October 31	January 31
	(In Millions, Except Per Share Amounts)			
Year Ended January 31, 1979*				
Net sales	$527.8	$556.2	$638.5	$731.5
Gross profit	149.8	153.3	185.8	208.3
Income before income taxes	3.5	6.2	26.2	42.5
Income before extraordinary credits	1.3	2.8	11.8	21.3
Net income	2.4	2.8	12.7	26.5
Per share of common stock (Note 12):				
Income before extraordinary credits:				
Primary	$ .11	$ .29	$ 1.38	$ 2.41
Fully diluted	.11	.28	1.15	1.93
Year Ended January 31, 1978				
Net sales	$523.4	$535.1	$603.1	$711.3
Gross profit	146.4	145.3	169.7	204.0
Income (loss) from continuing operations before income taxes	3.0	(3.7)	14.5	43.2
Income (loss) from continuing operations	(.7)	(7.6)	4.5	28.9**
Income (loss) before extraordinary credit	(.7)	(7.6)	4.5	21.4
Net income (loss)	(.7)	(7.6)	4.5	51.5
Per share of common stock (Note 12):				
Income (loss) from continuing operations before extraordinary credit:				
Primary	$ (.16)	$(1.03)	$ .52	$ 3.41
Fully diluted	†	†	.47	2.58
Year Ended January 31, 1977				
Net sales	$518.7	$532.1	$597.5	$697.8
Gross profit	140.5	138.9	162.1	192.4
Income (loss) before income taxes (benefits)	(.2)	(6.6)	13.5	31.6
Net income (loss)	(2.6)	(6.2)	7.8	14.9
Per share of common stock (Note 12):				
Primary	$ (.42)	$ (.88)	$ .94	$ 1.81
Fully diluted	†	†	.83	1.45

* The amounts for the first three quarters of the year ended January 31, 1979 have been restated to reflect the change to the LIFO method of valuing inventories and the change in accounting for capital leases (see Notes 1 and 13) as follows:

	Quarter Ended April 30	July 31	October 31
	(In Millions, Except Per Share Amounts)		
Reduction of net income due to accounting changes	$(2.4)	$(2.7)	$(5.2)
Per share of common stock:			
Primary	$(.30)	$(.34)	$(.69)
Fully diluted	(.26)	(.29)	(.49)

** See Note 9 for an explanation of the lower effective Federal income tax rate.

† Anti-dilutive.

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19. *Parent Company Financial Statements*

The following are condensed financial statements of Rapid-American Corporation (Parent Company):

CONDENSED BALANCE SHEETS

	January 31, 1979	January 31, 1978*
	(In Thousands)	
ASSETS		
Current assets	$ 37,103	$ 62,007
Investments in and advances to subsidiaries	497,330	473,878
Property and equipment—net	10,063	10,547
Intangibles	244,698	241,505
Other assets	3,614	3,584
Total	$792,808	$791,521
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 58,437	$ 88,183
Long-term debt, less current maturities and unamortized discount	473,858	480,272
Other non-current items	36,494	28,346
Stockholders' equity**	224,019	194,720
Total	$792,808	$791,521

* Restated (Note 13).

** Includes Rapid's equity before elimination in consolidation of McCrory's carrying value of its investment in Rapid common stock and warrants of $1,612,000 and $577,000, respectively (see Note 7)

CONDENSED STATEMENTS OF INCOME

	Year Ended January 31, 1979	1978	1977
	(In Thousands)		
Net sales and other income	$ 9,810	$ 12,799	$ 17,760
Costs and expenses and other deductions	(18,445)	(20,066)	(19,566)
Interest and debt expense	(56,290)	(53,547)	(52,846)
Income tax benefits	30,102	27,665	21,131
Loss from continuing operations before equity in income of subsidiaries and extraordinary credits	(34,823)	(33,149)	(33,521)
Equity in income of consolidated subsidiaries from continuing operations	72,065	58,267	47,461
Income from continuing operations before extraordinary credits	37,242	25,118	13,940
Equity in discontinued operations	—	(7,500)	—
Income before extraordinary credits	37,242	17,618	13,940
Extraordinary credits	7,191	30,075	—
Net income	$44,433	$ 47,693	$ 13,940

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CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended January 31, 1979	1978	1977
	(In Thousands)		
Funds Provided:			
Operations:			
Income before extraordinary credits	$ 37,242	$ 17,618	$ 13,940
Less—equity in income of subsidiaries	72,670	50,644	46,941
Loss before equity in income of consolidated subsidiaries and extraordinary credits	(35,428)	(33,026)	(33,001)
Dividends from subsidiaries	46,200	21,000	25,000
Charges not requiring current outlays—depreciation and amortization, including debt discount, excess cost, franchises and deferred income taxes	8,758	11,350	5,280
Funds provided by (used in) Parent Company operations, exclusive of utilization of loss carryforwards and tax credits	19,530	(676)	(2,721)
Utilization of loss carryforwards and tax credits	4,844	—	—
Funds from operations	24,374	(676)	(2,721)
Increases in long-term debt	12,331	—	428
Decrease in investments and intercompany balances—net	3,467	37,674	(175)
Exchange of McCrory debentures for notes	—	—	35,197
Reduction in excess cost related to acquisition of McCrory minority interest	9	1,758	8,251
Issuance of securities in McCrory Merger	—	—	6,753
Other—net	4,971	(1,688)	3,780
	45,152	37,068	51,513
Funds Applied:			
Decreases in long-term debt	17,770	48,742	12,745
Acquisition of common stock	12,411	—	—
Additional consideration for acquisition of subsidiaries	6,090	3,218	9,000
Cash dividends	3,875	941	942
Additions to property, plant and equipment	164	560	189
Exchange of McCrory notes for debentures	—	—	35,197
Acquisition of McCrory debentures	—	—	6,047
	40,310	53,461	64,120
Increase (Decrease) in Working Capital	$ 4,842	$(16,393)	$(12,607)
Increase (Decrease) in Working Capital by Major Components:			
Current assets	$(24,904)	$ 25,294	$(19,653)
Current liabilities	29,746	(41,687)	7,046
Increase (Decrease) in Working Capital	$ 4,842	$(16,393)	$(12,607)

20. *Replacement Cost Information (Unaudited)*

The replacement cost information set forth herein is furnished in compliance with rules of the Securities and Exchange Commission. The Commission cautions against simplistic use of such information.

The impact of inflation in recent years has resulted in the replacement cost of inventories and productive capacity being greater than the historical cost. Rapid and its subsidiaries generally have been able to recover the higher costs caused by inflation through increases in selling prices. The following data sets forth estimated current replacement cost of inventories and productive capacity at January 31, 1979 and 1978 (not the current value of such

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inventories and productive capacity), and the related effect such estimated replacement cost would have had on cost of goods sold and depreciation and amortization for the years ended January 31, 1979, 1978 and 1977.

Assumptions and General Estimation Methods Used

(a) Property, plant and equipment (including assets leased under capital leases).

Rapid and its subsidiaries considered and evaluated replacement plans in order to identify and exclude assets that are not expected to be replaced. As to those assets that are expected to be eventually replaced, it was necessary to review existing plans for replacement or to formulate hypothetical plans. Such hypothetical plans are, of course, not as complete as would be necessary if actual replacement were imminent. However, they are based upon estimates of the general type of assets that would be acquired currently if replacement were necessary.

Estimated replacement costs of non-retail facilities were developed as follows: (i) major plant facilities using engineering estimates, (ii) other plant facilities using published indices, (iii) administrative offices and other supportive facilities using either estimated construction costs per square foot applied to existing square footage or historical costs indexed for increased cost of construction and (iv) transportation equipment, small machines and office furniture and fixtures using vendor quotations, published price lists and published indices.

Estimated replacement cost of retail facilities (including capital leases, other than Lerner) was developed by estimating the total selling square footage required to obtain each year's sales, and applying estimated construction costs (based on the respective year-end rates) per square foot (for store structures, furniture, fixtures, equipment and leasehold improvements) to total square footage. Excess space (generally at older, downtown stores) which probably would not be replaced, has been excluded from the replacement cost data. Current cost per square foot was developed from historical cost records of recently constructed stores.

Lerner has approximately 100 leases, that have been capitalized, for retail facilities, principally in downtown stores and generally entered into over 20 years ago. Lerner's present practice is to enter into only operating leases, principally in shopping centers, and when the terms of the capital leases expire, Lerner has been and expects to continue replacing these leases with operating leases. Accordingly, management believes that reporting replacement cost information for the store structures of the approximately 100 stores would not be meaningful and in lieu thereof replacement rental costs are disclosed. The estimated rental costs based on replacement of these leases with operating leases (adjusting for reduced replacement square footage) approximates amortization and interest expense under capital leases, for each year. In addition, buildings containing retail facilities have been excluded from replacement cost based on Lerner's present practice as described above. Replacement rental costs for such facilities amounting to approximately $700,000, $600,000 and $500,000, respectively, for the years ended January 31, 1979, 1978 and 1977 are included in replacement cost of goods sold.

Depreciation and amortization, based on the estimated replacement cost of productive capacity, was computed on a straight-line basis generally using estimated useful lives and salvage values utilized in preparing the financial statements, adjusted for the estimated amount of fully depreciated assets which are still in use and have been written off for financial reporting purposes.

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(b) Inventories.

Retail merchandise

Merchandise inventories are valued using principally LIFO for 1978 and the retail method applied to inventory selling prices at year end or first-in, first-out cost for 1977. Replacement cost for LIFO inventories was estimated by determining the equivalent amounts computed under the retail inventory method. Management believes that such amounts, after consideration of the rate of inventory turnover, approximate estimated replacement cost. The historical cost of merchandise in transit equals current estimated replacement cost.

Whiskey, other spirits and wine

Tax paid and in bond inventory was valued principally at historical cost on a LIFO basis in 1978 and a first-in, first-out basis in 1977. Estimated replacement cost for tax paid and in bond inventory was estimated as the sum of (i) the current cost of a filled barrel, (ii) current storage costs per year multiplied by the number of years aged at January 31, 1979 and 1978 and (iii) where applicable, taxes paid.

Other inventory (principally manufactured goods)

The estimated replacement cost of other elements of inventory was generally computed using first-in, first-out inventory value revised, where appropriate, to year-end replacement cost estimates.

(c) Cost of Goods Sold.

Estimated replacement cost of goods sold, except for retail inventories, was computed using estimated replacement cost of inventories (derived under the methods described above) as close as possible to the dates of sale. Estimated replacement cost of goods sold for retail inventories was computed using the "lag" concept. Such concept is based on the following assumptions: (i) purchases precede sales by an amount of time equal to inventory turnover and (ii) the inflation rate is evenly spread throughout the year.

Estimated Replacement Cost Data

The following table summarizes estimated replacement cost and the comparable historical cost amounts:

	Estimated Replacement Cost		Comparable Historical Cost	
	January 31,			
	1979	1978	1979	1978
	(in Millions)			
Inventories	$ 720 2	$682.6	$616.2	$600.9
Property, plant and equipment	1,026 3	935.4	474.9	474.5
Property, plant and equipment—net	453 7	421 9	220.0	219.1

	Estimated Replacement Cost			Comparable Historical Cost		
	Year Ended January 31,					
	1979	1978	1977	1979	1978	1977
	(In Millions)					
Cost of goods sold	$1,789.2	$1,754.9	$1,743.7	$1,756 9	$1,707.5	$1,712.3
Depreciation and amortization	48.2	42.9	39.2	26.0	25.7	24 6

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The following table reconciles the amounts in the consolidated financial statements with the amounts for which estimated replacement cost data are provided:

	January 31, 1979			January 31, 1978		
	Property, Plant and Equipment	Accumulated Depreciation and Amortization	Depreciation and Amortization	Property, Plant and Equipment	Accumulated Depreciation and Amortization	Depreciation and Amortization
	(In Millions)					
Totals in the consolidated financial statements	$623 2	$353.1	$28.6	$624.0	$357.4	$28.3
Add—Fully depreciated assets still in use	10.5	10.5	1.2	9.6	9.6	.8
Deduct:						
Assets not expected to be replaced, principally reduced replacement square footage	(146.8)	(100 3)	(5.6)	(146.2)	(101.2)	(5.3)
Land and land improvements	(10.2)	(1.4)	(.1)	(11.0)	(1.5)	(.1)
Construction in progress	(1.8)	—	—	(1.9)	—	—
Excess of net assets acquired over related cost	—	(7.0)	1.9	—	(8.9)	2.0
Historical amounts for which estimated replacement cost data have been provided	$474 9	$254 9	$26 0	$474.5	$255 4	$25.7

21. *Segment Information*

See the Operations Review on pages 16 and 17 for the net sales and operating data of Rapid's business segments for the five years ended January 31, 1979, which are an integral part of these financial statements. Additional information concerning business segments follows:

	Capital Expenditures		Depreciation and Amortization		Identifiable Assets	
	Year Ended January 31,				January 31,	
	1979	1978	1979	1978	1979	1978
	(In Millions)					
Retail Merchandising:						
Lerner Stores	$16 8	$ 9 1	$ 6.9	$ 6.3	$ 247.4	$ 223.6
McCrory Stores	5 4	5 4	9.6	10.2	198.9	203.2
OTASCO Automotive and Home Accessories Stores	4.2	3 3	2 1	1.9	105 3	90 0
Britts Department Stores and other	1.1	.8	1.2	1.3	31.6	33.9
Alcoholic Beverages:						
Schenley	6 3	5.7	5.0	5.1	780.3	807.8
Industrial Group:						
Menswear	.4	.5	.8	.5	64.2	61.9
Ladies' Apparel, Neckwear and Luggage	.4	.3	4	.4	20.4	19.1
Knitwear	1.0	.3	1.1	.9	26.4	20.9
Investment in unconsolidated subsidiaries	—	—	—	—	32.1	30.6
Corporate Assets	2 0	1.6	1.5	1.7	77.5	70.7
Total	$37.6	$27 0	$28.6	$28.3	$1,584.1	$1,561.7

Net sales of foreign operations (principally in Canada), export sales, government sales and sales to any individual customer each represented less than 10% of consolidated net sales. Assets of foreign operations represent less than 10% of consolidated assets.

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Deloitte Haskins+Sells

Two Broadway
New York, New York 10004

Auditors' Opinion

The Board of Directors and Stockholders of
Rapid-American Corporation:

We have examined the consolidated balance sheets of Rapid-American Corporation and subsidiaries as of January 31, 1979 and 1978 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended January 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries, which statements reflect revenues constituting 29%, 27% and 25%, respectively, of consolidated revenues for the years ended January 31, 1979, 1978 and 1977. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors. The report of one of such other auditors makes reference to a restatement for a change in method of accounting for leases and is qualified as to consistency with respect to a change in the method of determining inventory cost, with which they concur

As discussed in Note 14 to the financial statements, substantial damages are being sought against Rapid-American Corporation and certain of its subsidiaries in various actions and claims. It is not possible to predict the ultimate outcome of such actions and claims.

In our opinion, subject to adjustments, if any, which may result from the ultimate outcome of the actions and claims referred to in the preceding paragraph and based upon our examinations and the reports of other auditors, the accompanying consolidated financial statements present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1979 and 1978 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change in the year ended January 31, 1979 to the last-in, first-out method of inventory pricing and after restatement for the change in the method of accounting for capital lease obligations; we concur with both of these changes which are described in Notes 1 and 13, respectively.

Deloitte Haskins & Sells

March 21, 1979

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Ernst & Ernst
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Three Park Avenue • New York New York 10016 • Phone 212/725-0500

To the Board of Directors
LERNER STORES CORPORATION
New York, New York

We have examined the consolidated balance sheets of Lerner Stores Corporation and subsidiaries as of January 31, 1979 and 1978, and the related consolidated statements of income, stockholder's equity and changes in financial position for each of the three years in the period ended January 31, 1979 (none of which is presented separately herein). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Lerner Stores Corporation and subsidiaries at January 31, 1979 and 1978, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended January 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the method of accounting for leases as described in Note K and except for the change in the method of determining inventory cost as described in Note C to the consolidated financial statements of Lerner Stores Corporation; we concur with both of these changes.

Ernst & Ernst

New York, New York
March 20, 1979

ERNST & ERNST

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samson,
belair
& associes

COMPTABLES AGRÉÉS
CHARTERED ACCOUNTANTS

To the Board of Directors
Schenley Canada Inc.

We have examined the consolidated financial statements of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1979 and 1978 and for each of the three years in the period ended January 31, 1979. Our examinations were made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, based upon our examinations, the consolidated balance sheets and statements of consolidated income and retained earnings and of changes in consolidated financial position (all of which are not presented separately herein) present fairly the financial position of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1979 and 1978 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

Samson, Bélair & Associés

SAMSON, BELAIR & ASSOCIES,
Chartered Accountants

Montreal, March 20, 1979

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Five Year Summary of Consolidated Operations

	1978	1977	1976	1975	1974
	(In Millions, Except Per Share Amounts)				
Revenues	*$2,461.9*	$2,377.2	$2,360.7	$2,293.9	$2,267.3
Cost of goods sold	*1,756.9*	1,707.5	1,712.3	1,662.3	1,660.7
Selling, general and administrative expense	*486.8*	480.6	479.4	480.7	476.1
Interest and debt expense	*111.3*	103.9	103.8	128.1	152.4
Depreciation and amortization	*28.5*	28.2	27.1	28.4	28.7
Provision for closed facilities	—	—	1.3	19.6	10.4
Minority interest	—	—	(1.5)	5.1	1.7
	2,383.5	2,320.2	2,322.4	2,324.2	2,330.0
Income (loss) from continuing operations before income taxes	*78.4*	57.0	38.3	(30.3)	(62.7)
Provision for income taxes	*41.2*	31.9	24.4	(6.6)	5.2
Income (Loss) From Continuing Operations	***37.2***	**25.1**	**13.9**	**(23.7)**	**(67.9)**
Operations discontinued or sold:					
Provision for estimated losses on phase-out of S. Klein	—	(7.5)	—	(5.3)	(19.7)
Income from operations (Playtex and S. Klein)	—	—	—	19.6	18.0
Income (loss) before extraordinary credits	*37.2*	17.6	13.9	(9.4)	(69.6)
Extraordinary credits:					
Gains on debenture exchanges—net of tax	*2.3*	30.1	—	—	—
Utilization of loss carryforwards and tax credits	*4.9*	—	—	14.7	—
Net income (loss)	*$ 44.4*	$ 47.7	$ 13.9	$ 5.3	$ (69.6)
Net income (loss) applicable to common stockholders	*$ 42.6*	$ 45.8	$ 11.9	$ 3.6	$ (71.3)
Income (loss) per share of common stock:					
Primary:					
Continuing Operations	***$ 4.52***	**$ 2.95**	**$ 1.54**	**$ (3.68)**	**$ (10.25)**
Operations discontinued or sold	—	(.95)	—	2.07	(.25)
Extraordinary credits	*.82*	3.83	—	2.14	—
Net income (loss)	*$ 5.34*	$ 5.83	$ 1.54	$ .53	$ (10.50)
Fully diluted:					
Continuing Operations	***$ 3.92***	**$ 2.65**	**$ 1.43**	*	*
Operations discontinued or sold	—	(.82)	—	*	*
Extraordinary credits	*.66*	3.28	—	*	—
Net income (loss)	*$ 4.58*	$ 5.11	$ 1.43	*	*
Cash dividends per share of common stock	*$ .40*	None	None	$ .125	$ 1.00

* Anti-dilutive.

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Management's Discussion and Analysis of the Summary of Consolidated Operations

The contribution of each major business segment to net sales and operating profit (loss) from continuing operations is presented in the Operations Review on pages 16 and 17.

The adoption of the LIFO inventory method in fiscal 1978 reduced income from continuing operations before provision for income taxes by approximately $25,400,000 and income from continuing operations by approximately $12,600,000 (see Note 1 to Financial Statements). The fiscal year 1977 and prior years have been restated to reflect the accounting for certain leases as capital leases. This change had no effect on income since the previously reported rent expense on capital leases approximated the charge for amortization and interest expense (see Note 13 to Financial Statements).

The increase in income from continuing operations in fiscal 1978 is attributable to the continued improvement in the results of the retail merchandising group primarily due to increased sales and the maintaining of gross margins, offset in part by the adoption of LIFO and increased interest rates.

The improvement in income from continuing operations in fiscal 1977 is attributable primarily to (i) improvement in the results of the retail merchandising group and the industrial group and (ii) a lower effective Federal income tax rate resulting from the inclusion, effective December 1, 1977, of McCrory and all of its domestic subsidiaries in Rapid's consolidated Federal income tax return.

The improvement in income from continuing operations in fiscal 1976 resulted primarily from (i) decreased interest expense, due principally to lower borrowing levels and interest rates; (ii) improved operating performance by Rapid's industrial group; (iii) improved results from McCrory (after including the 1975 provision for store closings); and (iv) gains on the sale of trademarks ($4,000,000) and repurchases of sinking fund debentures.

Rapid's results of consolidated operations were materially affected (i) in fiscal 1975 and 1974 by provisions for estimated losses related to McCrory's decision to phase out the operations of S. Klein and provisions for the disposition by Rapid of certain industrial group operations; (ii) in fiscal 1975 by McCrory's provision for store closing programs, Rapid's provision for loss on a lease and an extraordinary credit arising from utilization of net operating loss and foreign tax credit carryforwards; and (iii) in fiscal 1974 by S. Klein's operating losses (included in results of operations discontinued or sold).

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Market Prices and Dividend Information (*symbol*—RPD)

	Quarter Ended							
	April 30		July 31		October 31		January 31	
	High	Low	High	Low	High	Low	High	Low
1978 MARKET PRICES								
Equity Securities:								
Common Stock (a)	$ 9⅜	$ 5⅞	$13	$ 8⅞	$16¾	$11½	$16⅝	$11⅞
$3 Preferred (b)	36¼	29	44⅜	35¼	58	41½	57⅜	43¾
$2.25 Preferred (a)	30	24⅛	40⅜	31	52¼	37	51½	35⅝
Warrants (a)	1¾	¾	2⅞	1½	4¾	1½	3⅝	1⅞
Subordinated Debentures:								
7½% due 1985 (c)	79 %	73⅜%	78 %	75 %	80 %	72½%	77 %	70½%
6% due 1988 (b)	64	59½	63¼	59⅝	66¾	53	61¼	55
7% due 1994 (d):								
1969 issue	62	57¼	61⅜	57⅛	64½	50¾	61	51
1972 issue	62⅜	57⅜	61½	57½	64½	50½	61½	51¼
12% due 1999 (c)	94	92½	95½	90½	100⅛	85⅛	93⅜	87
10¾% due 2003 (d)	86¾	80¼	85	80	90	84	85	76
10¾% due 2004 (b)	—	—	—	—	—	—	84½	79⅞
11% due 2005 (b)	—	—	—	—	—	—	84½	79¼
1977 MARKET PRICES								
Equity Securities:								
Common Stock	$ 7⅝	$ 6⅛	$ 8⅞	$ 6	$ 7½	$ 5⅜	$ 6⅝	$ 5½
$3 Preferred	33½	30⅛	38	30⅛	34	30⅜	31½	28¼
$2.25 Preferred	26¼	23½	30½	25	28¼	25	24½	22
Warrants	1¼	¾	1½	⅞	1⅛	¾	1	11/16
Subordinated Debentures:								
7½% due 1985	67 %	59½%	74⅞%	66 %	79½%	69 %	75 %	68¼%
6% due 1988	53¼	46¾	62⅜	51¾	66	58¼	62⅜	56¼
7% due 1994:								
1969 issue	56⅞	50½	63⅞	55	62¾	54	59	53
1972 issue	57¼	50⅜	63⅞	55	62½	53½	59½	53
10¾% due 2003	—	—	—	—	—	—	84⅜	78½

DIVIDENDS

Dividends of 20¢ per share were paid on the common stock in the second and fourth quarters of fiscal 1978. During 1978 and 1977 quarterly dividends of 75¢, 56¼¢ and 78¾¢ per share, respectively, were paid on the $3 preferred stock, $2.25 preferred stock and the $3.15 preferred stock.

TRANSFER AGENTS OR TRUSTEES

(a) Chemical Bank
(b) Marine Midland Bank
(c) Bradford Trust Company
(d) Bank Leumi Trust Company of New York

MARKETS

All securities are traded on the New York Stock Exchange, Inc. except the Warrants which are traded on the American Stock Exchange, Inc. Shares of $3.15 preferred stock are infrequently traded and not listed on any stock exchange.

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CORPORATE OFFICERS

BOARD OF DIRECTORS

CORPORATE INFORMATION

EXECUTIVE OFFICES

ANNUAL REPORT ON FORM 10-K

The Annual Report on Form 10-K as filed with the Securities and Exchange Commission is available to stockholders without charge upon written request to: Secretary Rapid-American Corporation 888 Seventh Avenue, New York N.Y. 10019

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